

1967

Quarterly, Vol. 13, no. 3 (1967, September); [whole issue]

Touche, Ross, Bailey & Smart

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T O U C H E , R O S S , B A I L E Y & S M A R T

The Quarterly

September
1967

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Published quarterly by Touche, Ross, Bailey & Smart, U.S.A.

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The Quarterly /

TOUCHE, ROSS, BAILEY & SMART
Volume 13, Number 3 September 1967

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Speeding Up Closings

by
Richard A. Patterson

The need for timely financial information by decision making executives and the urgency of communicating periodic as well as annual results of operations to shareholders and other interested parties is well recognized. These requirements have placed an increasing responsibility on financial management to speed up the information system. The purpose of this article is to discuss certain techniques that have proven helpful in accelerating the closing of the books and preparation of financial and other operating reports.

The most important single factor contributing to faster closings while attaining the desired level of accuracy is a strong system of internal control coupled with well organized and documented accounting policies and procedures. The first step for a company embarking on a "speed-up" program is a re-evaluation of those factors influencing the capabilities of the accounting system with corrective action taken where necessary.

Tighten Up the Accounting Procedures

One of the most important of these factors is the standardization of the accounting system. Preprinted standard journal entries should be utilized to insure that all entries are recorded and to reduce routine clerical effort. Standard charts of accounts and pre-

printed standard trial balances should be developed. This is even more important in a multi-unit company where the consolidation process is time consuming. It is also helpful to maintain individual divisions, plants, or subsidiary companies on a consistent accounting basis without regard for changes in tax laws, etc. Most changes necessitated by tax considerations can be made on a consolidated basis instead of at local levels with attendant re-training and other complications.

The number of general ledger accounts should be kept at a minimum with liberalized use of subsidiary ledgers. Although the subsidiary ledgers should be retained on a permanent basis, they do not necessarily have to be formal ledgers, but could consist of handwritten work papers. This approach reduces the number of journal entries to be written, speeds up posting and balancing, and allows several people to work on various aspects of the ledgers simultaneously.

Another technique for reduction of clerical time and effort is rounding. Although there are some general ledger accounts such as Receivables and Payables which generally are recorded to the penny, many accounts (and related journal entries) can be rounded to the nearest dollar, reducing the number of digits to be written and balanced by a considerable percentage. In large companies many reports can be rounded to the nearest thousand or ten thousands.

Additional techniques that will aid in speeding up the closing include handwritten worksheet reports that can be issued in place of time-consuming type-written or printed reports. Also, many accounting reports are unnecessarily delayed until all ledgers and subsidiary ledgers are balanced. All reports need not agree exactly with ledger accounts in order to be effective. Consider the case of companies which have detailed budgets for administrative expenses. Deviations from budget can be analyzed and reported as soon as the information is available. Management wants to act only on these major deviations and can do so effectively even though the reports may be slightly out of balance with the ledger.

A formal printed controller's or accounting procedure manual is invaluable since it will enable personnel to handle routine items in an expeditious manner and save important time for decisions with respect to unusual transactions. Significant amounts of time may be saved by determining the frequency of account analyses. Often, analyses and related working papers that are prepared monthly may be completed at less frequent intervals with no substantial decrease in internal control and accuracy. The accounting manual and closing schedule should set forth the frequency of this type of work.

Evaluate Present Information

The second step of almost equal importance is to evaluate the information and reports *presently being generated*. One of the major reasons management receives out-of-date information is the desire of the financial department to provide all things to all men. Often vital information is held up until a complete monthly report can be printed. The key decision is to identify those reports that are absolutely necessary for intelligent decision making and gear the closing toward providing this information. This should be accomplished in three distinct steps:

1. Determine what information is needed, by whom, and establish priorities.
2. Design the information system to meet the priorities.
3. Establish a formal closing calendar.

A helpful technique for determining required information is to construct an "urgency table" to review information requirements with management and establish which reports are required, by whom, and in what priority. A brief example of an "urgency table"

is shown in Exhibits A and B. It is a simple device that insures asking the questions contained in the old newspaper axiom "who, what, when, where, how, and why"; questions that management must answer to establish priorities effectively.

The first procedure in using the table is to list the reports presently prepared, the distribution of the reports, and the date of distribution. Next, management should be interviewed to determine who actually utilizes the information and the critical importance involved. At the same time, the accountant should be prepared to advise management on other information available for decision making and to question whether information not presently generated would be helpful.

The results that can be expected from the construction and use of an "urgency table" are often startling and in general can be summarized as follows:

1. Many reports could be condensed or summarized eliminating the accounting effort involved in preparing detail reports.
2. Certain executives may have no use for information they receive. The profusion of reports and universal distribution may actually waste valuable management time.
3. Information that executives feel imperative to proper decision making may not be available or, if available, may be in unrecognizable form.
4. Executives may not be aware of the type of vital information that could be made available.
5. In many cases it will be found that certain periodic reports should be prepared more or less frequently than they have been and some reports may not

Richard A. Patterson



Richard A. Patterson has just signed the Touche, Ross, Bailey & Smart partnership agreement. Mr. Patterson, who is in our Detroit office, joined Touche, Ross in 1960 after graduating from the University of Michigan with a MS degree in Business Administration. He serves on the Board of Directors of the Detroit Chapter of NAA and is a member of the Michigan Association of CPAs and the American Institute of CPAs. An article on "Bank Closings" by Mr. Patterson appeared in the June issue of the Quarterly.

SAMPLE URGENCY TABLE

EXHIBIT A

Information Presently Supplied	Who Needs		When		Comments
	Present Distribution	Additions or Deletions	Present Distribution	Actually Needed	
Gross Margin Analysis By Product Line	All Corp. Officers	Distribute to only Group I	10th working day	Weekly by sales manager. 20th working day by remainder of Group I.	Could be prepared weekly if report could cover only those lines providing 80% of sales.
Statement of Changes in Working Capital	All who receive officers book	Some quarterly, none monthly	20th of the month	Quarterly	Information replaced by daily treasurer's report, monthly receivable reports, and monthly inventory status reports.
Information That Should Be Supplied (Not Presently Available or in Unusable Form)					
Daily departmental labor efficiency	N/A (Supplied Monthly)	Gen. Mgr., Plant Superintendent, Gen. Foreman, Departmental Foreman	N/A	Daily for preceding day	Could be obtained by key punching daily production reports and time tickets. Would provide check on monthly efficiency reports in addition.
Weekly indirect labor variance	N/A (Supplied Monthly)	(Same as Above)	N/A	Monday for preceding week	Would be better if report only contained categories varying from budgets by 10%.

SAMPLE URGENCY TABLE

EXHIBIT B

Information Available	WORKING DAYS											
	1	2	3	4	5	6	7	8	9	10	11	12
Preliminary:												
Account Balances	←	←	←	←	←	←	←	←	←	←	←	←
Trial Balance	←	←	←	←	←	←	←	←	←	←	←	←
Profit and Loss Statement			←	←	←	←	←	←	←	←	←	←
Balance Sheet			←	←	←	←	←	←	←	←	←	←
Performance Statistics*				←	←	←	←	←	←	←	←	←
Selective Analyses*				←	←	←	←	←	←	←	←	←
Final:												
Account Balances						←	←	←	←	←	←	←
Trial Balance							←	←	←	←	←	←
Profit and Loss Statement								←	←	←	←	←
Balance Sheet									←	←	←	←
Performance Statistics*										←	←	←
Selective Analyses*											←	←

* In actual practice, these categories would be listed in detail. Some items will be needed daily or weekly, some less frequently.

← Present reports available from date indicated by arrow.

← — — — When needed, based on "urgency table" survey.

be needed at all. Frequently, special reports initiated in the past because of particular operating problems continue to be generated, perhaps on a priority basis, when their usefulness has diminished or disappeared.

The information system should be structured to provide certain types of top priority information, such as sales dollars, on a "flash report" basis which may be independent of the normal accounting system. Additional flexibility can be obtained if management accepts the principle of exception reporting. This will permit more rapid reporting of information indicating that action should be taken since the preparation of reports that reflect operations within control limits could be delayed without harmful consequences.

Analyzing the Closing Procedures

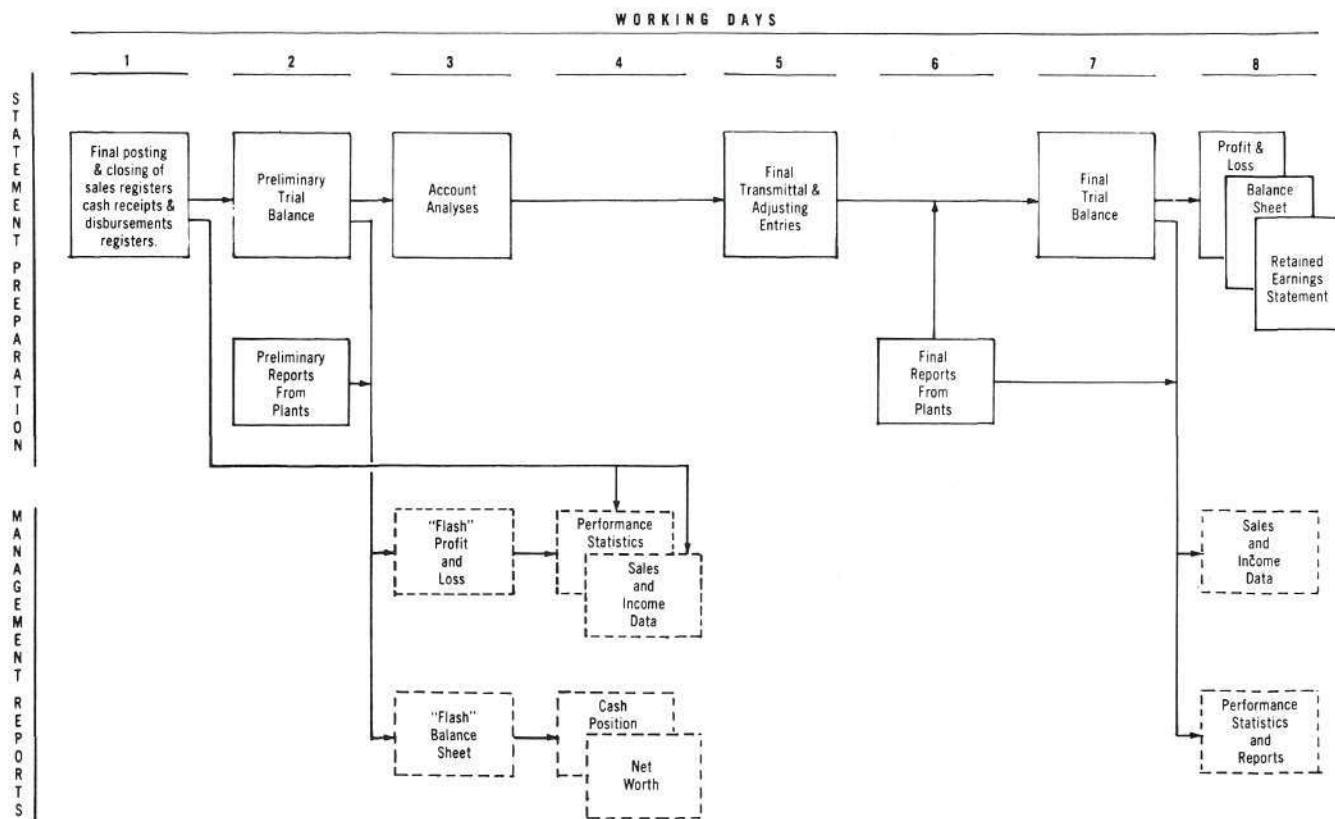
After determining what information is needed, by whom, and the priorities involved, the next step is to design the information system to achieve the requirements. One approach that has been found satisfactory

is to construct a network diagram working back from the due dates of various reports listed in the "urgency table." A simple network example is illustrated in Exhibit C. In actual practice the network would be considerably more complex because of numerous additional jobs that are necessarily performed and because the individual elements in the boxes take varying amounts of time for completion. The actual diagram should show, in sequence, the jobs to be performed and the time required. It will then indicate the critical path (the sequence of those tasks of which the delay of any one will delay the final closing) and will highlight bottlenecks. A network diagram will also show functions that could be delayed without retarding the final closing and a degree of flexibility will thus be achieved. The action to eliminate bottlenecks or to provide a cushion on the critical path is, of course, as varied as different organizations; however, several methods are frequently used.

1. Additional manpower or overtime may be utilized

**SAMPLE NETWORK DIAGRAM
PROPOSED CLOSING SCHEDULE**

EXHIBIT C



to accomplish the task so that final reports are not delayed beyond the date needed.

2. A job that delays the entire closing may be moved forward. An example of this would be an earlier cut-off on accounts payable utilizing an estimate of unrecorded trade liabilities.

3. Developing information in a different format or from a different source may enable the closing schedule to surmount a bottleneck. An example of this would be the preparation of a customer delinquency report by computer based on overdue payments. This would be supplemented by the normal aged trial balance at a later date.

Once the "urgency table" is finalized and the network diagram analyzed to eliminate bottlenecks, the next step is establishing a formal closing calendar in terms of work days indicating the dates for completion of certain tasks. The effectiveness of such a calendar is limited unless a feedback system is designed to insure that corrective action is taken at the time a critical calendar due date is missed or, better yet, before the date is missed.

A major impetus to accelerating the information system has come with the increasing use of computers. The ability to retrieve and process information electronically in extremely short periods of time has provided another tool for management's use in obtaining information on a current basis. The mere presence of a computer installation does not automatically accelerate the date by which management receives vitally needed information. The techniques previously discussed are still valid because to a great extent the computer is substituting for clerical effort.

Interim Closings

Internal reporting is required throughout the year, while reporting to stockholders and other outside parties takes place usually only at the end of each quarter. Recognizing these needs and the constant effort that must be made to provide decision-making executives with current financial information, a two-phase closing can many times be used to speed up the flow of such information. Some companies utilize a two-phase closing with the second phase being used only in those months that coincide with the end of a quarter or when external reporting is required. For internal uses, 100% accuracy is not always required (accounting is not that precise) and sufficient reliance can many times be placed on the use of estimates for internal report-

ing. For example, a company with relatively constant labor costs can estimate the labor costs for the final few days of the month that may fall in a pay period of the following month, rather than await the information from the payroll department. By such means a phase-one closing can be accomplished in less time and yet provide internal management with reasonably accurate information.

For internal reporting, a company may wish to use only the information generated in this phase-one closing each month. In those months where external reporting is a requirement, a second formal closing can be used where additional adjustments and accruals can be recorded to reflect the greater degree of accuracy required.

The average expired time before an effective interim closing is completed usually runs from about ten to fifteen working days after the close of the period. Modern techniques and the application of old-fashioned ingenuity should be concentrated toward reducing this time lapse—five working days would appear to be a reasonable goal with more urgently needed information supplied even more rapidly.

Year-End Closing

The most important closing is undoubtedly at year-end when the closing is complicated by the necessity of obtaining more detailed and complete information for tax and annual report purposes.

Speeding up the year-end closing calls for a close relationship between the company and the certified public accountant. The CPA can make a positive contribution in a number of areas. First, assuming an adequate system of internal control with effective accounting systems and procedures, much of the audit work can be conducted at interim periods. It is obvious that work shifted from after year-end to before year-end can result in a more rapid closing. Typical examples of interim audit techniques include: interim physical inventory, confirmation of accounts receivable, review of miscellaneous asset and liability accounts, and tests of transactions in the property accounts. In the case of multi-plant or division companies, complete audits at certain locations may be carried out at interim periods. If a company has foreign subsidiaries, it is often possible to arrange for the fiscal year of such subsidiaries to end a month or two before the parent's annual closing. Of all the examples cited, probably the use of an interim physical inventory can save most

time. The work of taking, compiling, pricing, and checking a physical inventory is generally the most time-consuming feature of the annual closing, and if this must be completed after year-end, it generally will prevent acceleration of the closing date.

A second area in which the CPA can assist the company in speeding up the year-end closing is in encouraging management to increase the extent of their participation in the year-end audit. Theoretically, the ideal situation would be achieved if all detailed working papers and account analyses were prepared by company personnel for review and verification by the CPA. In larger companies these detailed working papers and analyses should be standardized so that consolidations can be made without undue effort and rearrangement. Many companies are progressing toward this point and experience has indicated a substantial accelerating effect on the closing schedule. This procedure can also have the desirable effect of reducing the audit fee. To accomplish this goal, a closing schedule should be prepared in conjunction with the auditors, indicating the various dates at which a certain degree of progress must be attained in order to meet the final closing date. The schedule should indicate the work to be performed, i.e., account analyses, inventory valuation studies, etc.; the person responsible for completing the work; and the date to be completed. It is apparent that much preplanning is required to maximize the benefit of such a schedule and to provide alternative plans if the schedule is not maintained. Planning is also necessary to insure that all items required for various external reports, including reports to the Securities and Exchange Commission, are included. Preparation of a closing schedule can have the additional benefit of highlighting critical bottlenecks so that additional manpower or rescheduling can eliminate the problem.

As a part of the advance planning for year-end closing, standard audit schedules should be prepared covering trial balances, profit and loss statements, expense statements, reconciliations of profit, depreciation, labor and benefits, capital summaries or any other schedules which include data that must eventually be consolidated. The schedules should be accompanied by a procedure which clearly outlines how they are to be prepared. Complete definitions of line items, expense categories, etc. should be included to assure uniformity of reporting.

In larger companies, the use of internal auditors or

other qualified accountants under supervision of the CPA to perform reviews of detailed financial information subject to review and verification by the CPA can also speed up the closing. Examples of this would include: (1) review of branch inventory compilations and reconciliations and testings of the arithmetic accuracy of totals and extensions, (2) assignment of complete examinations of smaller divisions or subsidiaries to the internal auditors in alternate years, (3) review of internal audit reports for potential reduction of audit tests and, (4) collaboration with the internal audit department early in the year to establish an annual program that is compatible with the CPA audit objective.

A third area where the CPA can assist his client in speeding up the annual closing involves a close relationship with management throughout the year. Accounting treatment of unusual transactions or changes in financial statement format should be discussed when they arise and agreement between management and the CPA should be reached before year-end. This recurring consultation has become even more important because of various opinions issued by the Accounting Principles Board of the American Institute of Certified Public Accountants, which generally set forth the acceptable accounting principle for the specific problem. Since many of the opinions relate to areas of accounting where alternative treatments have been acceptable in the past, the impact of the opinions on a company's accounting policies should be the subject of the earliest possible discussion.

A fourth area where the conduct of the audit can affect the speed and reliability of the year-end closing involves the early review and evaluation of the system of internal control, data processing and accounting procedures. This phase of the audit examination can, and frequently does, result in identification of bottlenecks and other procedural weaknesses. Implementation of the CPA's recommendations can result in faster, more accurate closings. The review of the system of internal control frequently includes flow charting the accounting system. A careful review of the flow charts might well indicate the areas where additional planning would succeed in achieving a more rapid closing. As previously indicated, preparation of network diagrams for use in analyzing the closing process is a valuable technique. If flow charts have been prepared by the CPA, they could well serve as the starting point for such a project.

Summary

The responsibility for providing more rapid dissemination of critical financial information is properly placed on the financial executive. The key to discharging this responsibility is adequate administrative planning. Some of the techniques to support this planning have been discussed and their use can be of benefit in implementing the decision to speed up closings.

Two distinct objectives emerge as primary considerations. First is the need for advising management, on a timely basis, of those facts needed for intelligent decision making. These may include budget variance reports, flash reports of sales, costs, profits and related performance statistics and other pertinent data.

The need for extreme accuracy is not as great for these internal reports, and a two-phase closing procedure can be adopted to provide more accurate data in a relatively short time after the end of the period.

The second objective is the formal closing of the books and the preparation of detailed financial statements for internal use as well as for stockholders, governmental bodies, etc. Accuracy is paramount as these become the official historical records of the company; nevertheless, constant effort must be made to speed the ultimate closing while maintaining the accuracy of recorded data. This can best be achieved by administrative planning in the development of the management information system.

More New CPAs

Boston — Louis S. Carmisciano, Angela F. Fiorelli, Lewis P. Gack, James B. Karter

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Seattle — Thomas Douglas, Donald P. Heffernan, Melvyn R. Kays, Larry N. Morrow

The Professional Development and Redevelopment of Accountants

by Donald H. Cramer

This article is based on Mr. Cramer's speech at the Seventh Annual Northern California Accounting Educators' Conference, sponsored by the California Society of CPAs.

The professional development of an accountant can be compared to a journey of a thousand miles. It begins with a single step. And it can continue as an ordinary trip or it can become an enriching experience for both the individual and his profession. Much of the quality of a man's professional development depends upon himself. But a lot depends, too, on the encouragement and opportunities for development available through professional societies and through accounting firms.

Preparing a Career's Foundation

A man usually lays the foundation for an accounting career as a student in college. Educators often witness this first step as they help a student choose the courses which will start him down the road of his career.

We used to think professional development ended about the time a man becomes a partner. That is too short-sighted these days. One of the most challenging frontiers of professional progress is the *redevelopment*,

or continuing development of accountants after they have become partners. Between college graduation and partnership there is the traditional, long, and especially stimulating period of practical and theoretical development. I'd like to review it briefly.

Professional Development in a Public Accounting Firm

Let's start with a step by step review of an accountant's professional career after graduation. Many of these steps are self evident and small in themselves. The accumulation of them, however, is impressive. This will become clear, I believe, as I describe the development of a typical accountant. Let's call him Bill Eager.

We pick up the story of Bill when he accepts employment with an accounting firm. You might say Bill is an idealized composite of the type all firms wish to employ. His opportunities for development are based on programs available in the large firms such as Touche, Ross, Bailey & Smart and, in the smaller firms, through the AICPA and State accounting societies.

Bill Eager accepted an offer of employment when he was 25, just married, and had graduated from a big name University with an M.B.A.

Bill's first development sessions introduced him to the auditing functions and goals of his accounting firm. Fifteen years ago we had what we called a Group 1 School which took new men over the hurdles of auditing as we practice it at TRB&S. It was a two-week training session. At that time we used complete practice sets and spent a great deal of time . . . in fact, *too much time*, on them. Now, however, we work only with specific problems and cases and concepts rather than with all the busy work of a complete practice set.

Four Functional Phases of Development

After this introductory session the entire development program can be divided into four functional phases which must be integrated with each other.

1. A national program of from 40-80 hours a year, similar to the programs sponsored by the State societies, the AICPA, and the larger accounting firms. This is the program most of us talk about so often in recruiting interviews.

2. A local office program of about 40 hours a year, geared to the needs of an individual office.

3. On-the-job training, of from 30 to 60 hours a year, which is given considerable emphasis at Touche, Ross.

4. A management development program.

All four steps are necessary; the economics of our practice demand them.

The first three phases are primarily for staff people during their early years with the firm; the last is for more experienced men who are about ready to assume, or have assumed, management responsibilities.

The structure of the whole program is based on the assumption that on-the-job training hits hard at fundamental audit procedures, or tax, or management services, and, in general, is carried out conscientiously and with first class results. If this is not true, the entire program must be revised.

Specific subjects and schedules will vary with the need and those in charge of training must try to assign each seminar to the phase of the program which can handle it naturally and with best results.

The cumulative impact of this four-part development program will bring the firm and the individual these benefits:

1. It should improve the competence of staff members in technical areas, so that they can provide better service to clients.

2. It should help each person to realize his maximum potential.

3. It should create new ideas for development of a firm's practice.

4. It should present the firm's philosophy, policies and procedures as they affect both technical and administrative development.

5. It should provide development in other phases of business such as communication and mathematics as well as in accounting.

6. Each level of education in the development program should add its particular finish or polish to the professional accountant who emerges from the process.

Now, let's get back to our friend, Bill Eager. As we follow his career I will spell out some of the development opportunities Bill will encounter in the program I propose.

Experience in Audit Procedures

He will do considerable detail auditing work as a young assistant and will become acquainted with fundamental audit procedures. In all likelihood he will take a special course sponsored by his firm or the AICPA in the preparation of auditing objectives, standards, and procedures and audit working papers and memorandums required for effective communications on an audit engagement. This will probably be held on a university campus for one to four weeks.

Importance of On-The-Job Training

Working under close supervision at first, Bill will absorb a lot of "know how" on the job. On-the-job training can and should be the most effective method of training staff members in certain technical areas. It doesn't sound glamorous in a recruiting interview. Sometimes it is also used as a crutch. The recruiter says, "We are a small office; we do not need formal programs. We have on-the-job training." I'm thinking here about *first class* formal, structural, on-the-job training. The class room of a university or a class room of a firm is no substitute for hands-on experience.

Our young accountant, Bill Eager, will often work late on his first engagements but hopefully his on-the-job training will be continued. It can and should be the most effective method of teaching certain technical subjects.



Donald H. Cramer

Donald H. Cramer, partner in the Executive office, is the Touche, Ross national director of personnel. Before joining our firm in 1951, he taught at the University of Wisconsin. Mr. Cramer recently completed his term as president of the New York Chapter of the National Association of Accountants and is also a member of the American Institute of CPAs and the American Accounting Association.

Objective of On-The-Job Training

The broad objective of this program assumes a system of communications and rapport beyond the usual routine of an engagement. The program should be designed:

1. To create and maintain high standards of technical performance by teaching, reviewing, and reinforcing an understanding of audit objectives and philosophy.
2. To stimulate and maintain high levels of interest and curiosity in operating techniques, business methods and business problems.
3. To challenge the individual's understanding beyond the level of his present responsibility and to stimulate his full potential for growth.

Suggested Procedures for On-The-Job Training

Effective on-the-job training does not just happen. It must be planned, budgeted and carried out with certain procedures if we are to get the most from it.

- Staff men should be assigned as far in advance of the engagement as possible, so that they can bone-up on the client's past operating history.
- Assignments should take into consideration the need for giving each man diversified experience in size and type of engagement and type of industry.
- Routine instruction necessary for specific audit procedures should not be considered on-the-job training time. Neither is regular routine review of work papers and memos.

On-the-job training should proceed in three phases designed to take advantage of the best opportunities for development. The three steps are:

1. Advance preparation
2. Training in the field, and
3. Review of the completed work.*

Advance Preparation

As preparation for an engagement, it is best to give each assistant the audit program, prior year's work papers and memos, financial statements, letters of recommendation, company brochures, and other available background data on the company and the industry. His supervisor should direct him to significant parts of this material and should instruct him to review all the material and to write out questions and comments for later discussion.

In briefing sessions before the work begins, the partner, manager or supervisor in charge should discuss the scope of the engagement, the general audit plan, and each person's responsibility in fulfilling the plan.

The client's business should also be discussed: its position in its industry, its products and processes, properties, operating methods, and business policies.

In addition, the supervisor should discuss financial position, risk areas, accounting methods, particularly strong or weak control features, special problems, and quality of personnel.

Training in the Field

The second part of on-the-job training takes place in the field. Those in charge of an engagement should:

1. Arrange a plant tour of the client's operating facilities and familiarize staff members with the client's personnel records.
2. Lay ground rules for client relations. This means clear instructions about questions to ask client's personnel and questions which should first be referred to the man in charge of the engagement.
3. Give specific instruction on work assignments. Staff men should know what is to be done, how it is done, *why it is done*. At this point the supervisor should explain the objective of each audit procedure; the type of evidence it is intended to furnish; and how the work assignment and audit evidence fit into the overall audit.
4. Impress on the assistant the importance of think-

*Touche, Ross, Bailey & Smart Topical Index EDU-3000 Release No. 65-50

ing about what he is doing; the importance of challenging, inquiring, and of not accepting representations at face value.

5. Try to assign work that will stretch the staff man's capabilities and capacity for growth.

6. When a part of the work is finished, have a senior review working papers and memorandums with the young auditor. The senior should point out what he considers weaknesses or errors in judgment or philosophy and should take immediate steps to help the man make corrections. An especially good job should be commended whenever possible.

7. Have staff men present when significant problems are discussed with the personnel of the client.

8. Try to keep as many assistants as possible assigned to the end of an engagement.

Review of the Completed Work

As proposed, the third phase of on-the-job training takes place at the close of a specific engagement. Those in charge should:

1. Urge staff men to review the completed work papers and memorandums.

2. Furnish each staff man with a copy of the report on the engagement or an annual report as finally published. Encourage him to study these tangible results and ask questions.

3. Review with each staff man his individual performance as it will appear on the staff evaluation report. Make it a point to touch on reasons for unusual presentations, classifications or disclosures. Relay to staff men the principal points raised when partners reviewed the report; tell them how general performance could have been improved.

4. Finally have the senior or supervisor in charge of the engagement prepare a memorandum on the various phases of on-the-job training he conducted. He should evaluate the results he thinks he achieved and recommend possible modifications for the next year's program.

How can we achieve this depth in on-the-job training? First, believe in its effectiveness. Partners and staff have to be convinced the firm is on the right track. Second, provide for on-the-job training in the audit program. It must be part of the time budget for the audit. Finally, follow up to make sure that procedures are carried out.

We have this program for on-the-job training at

TRB&S and we provide for it in our time budgets and audit programs. Implementation, however, is the eternal problem. Personnel on each level of responsibility must be reminded of their obligation to teach those coming up the ladder.

You can imagine that Bill Eager, our typical young accountant, would be a very busy young man in this kind of training program. At about this time, Bill may also have a chance to take courses outside of those sponsored by his firm or state society. He could, for example, take mathematics courses sponsored by the National Association of Accountants.

Sometime during his early years, depending on state law, Bill will be ready to take his C.P.A. exam. This, too, is part of his professional development. Shortly after receiving his certificate, Bill will probably become a senior and for the next few years will continue to learn on-the-job, through supervision and sometimes by supervising others as the man in charge of an engagement.

Local Office Training

Local office training programs in which Bill will participate are mostly on technical subjects taught either by his associates or by people outside the firm. In New York, for example, our firm has offered the management services staff a course in written communication led by professors from N.Y.U. Our Detroit office also presented a program in communications and used educators from the University of Michigan. However, most local office training programs relate to technical subjects.

Those responsible for training should develop models for typical local office training courses. The local offices can then adapt these and carry them out with the help of local office training directors. It is best to develop model programs for several reasons:

1. The firm can achieve consistency and high quality in the training material presented in each office.

2. A model program can prevent duplication of effort within the firm.

3. With the program, management can centralize and control training efforts, pool know-how, and assist offices in conducting an adequate amount of training.

4. The program can be used to supplement material already presented in the national training program and to emphasize specific problems on the local office level.

Not all of these advantages would apply to a firm

with one office but for them good planning this year can prevent duplication next year.

The program suggested here should cover thirty or forty hours of local office training given each staff man every year. Although the program distributed to the offices is fully structured, each office must be encouraged to carry it out in a manner that is best suited to its own needs and interests. Local office training should be planned a year in advance.

Fitting In With the National Program

You may be wondering how the on-the-job training program and the local training program fit in with the national program. The national program I propose would usually present concepts and philosophy whereas on-the-job training would deal with fundamental audit procedures. Local office programs would take up general technical development, as well as specific office problems. National programs should have broad application and present subjects of general interest, as well as new subjects which cannot be handled on the local office level.

As part of the national program, our friend Bill Eager will probably take such courses as Auditing Objectives, Standards and Procedures; Auditing and EDP; Management Services for the Auditor; Practice Development; SEC, just to mention a few.

Moving Up

Sometime during his early years, Bill Eager will decide to ask for specialized experience in depth in one of the functional areas of his firm: auditing, tax, or management services. This will require extensive training in the area of specialization. Numerous training programs are offered by the profession or by the individual firms.

At about this time our friend Bill will be serving as an instructor in local office courses and in the national programs. If he is typical, he will probably begin to be active in professional organizations and trade associations. Hopefully he will serve on committees and perhaps give a few talks. If he is lucky, he may bring in a number of new clients for the firm.

Somewhat later Bill might very well become a partner and the new position will challenge and bring into play more and more of his administrative abilities.

In all likelihood, he will accept more speaking engagements in various professional and business semi-

nars and conferences. Through his speeches and articles, he will become better known in his business community. His objective is, too, to attract new clients to his firm.

Making It as a Partner

Bill's success as a young partner of his firm will undoubtedly bring him to the attention of the managing partner. And when a partner-in-charge of an office or of a department is needed, Bill will probably get the job and take up the new challenge with his characteristic enthusiasm. His golf game will slump and his boyish figure, too, but he will be moving up in his firm.

Bill Eager is, of course, an imaginary accountant who will get some of the breaks, but not all of them. His problems will be those of any man as he moves up conscientiously in his profession.

The New Techniques and Disciplines

Perhaps only educators really know how many new courses have been added in the business schools during the past decade. In the practice of accounting we have had to create courses and educate our people in many new techniques and disciplines. The reason was simple. New techniques were needed to serve our clients better. They wanted to know how new changes would affect their profitability. Often it meant teaching clients something we had to learn first ourselves.

Many of the new techniques will be entirely routine in a few years and we will expect colleges . . . even high schools, in the case of basic computer programming . . . to offer the courses which will, by then, have become necessary for anyone thinking of a career in business. We will be only too happy when young men and women come to us with these fundamental skills already mastered. Then we can pioneer other courses on the frontier of the information revolution.

Importance of a Capacity for Development

Despite all the courses now available to students, if I had to specify only one quality we would like to see in college graduates, no matter what the degree they have earned, that quality would be: an ability to absorb much more education, a capacity for further development.

Obviously, we would like to see them come to their first engagements with several skills learned thoroughly, but, above all, with an ability to keep an

open mind and to accept on-the-job experience as the great developing force it is.

An accountant becomes really useful and worth his salt after he has acquired a good deal of experience and has taken the trouble to get the most out of the educational and development programs sponsored by his firm or the profession. He can acquire new skills, better judgment and be of more value to his firm only if his mind is open to new ideas and new ways of doing things.

The ideal recruit would have a *broad education in business*, the liberal arts, and in-depth training in the technical skills which particularly interest him. With these skills he can at least plug into a professional organization and start his career. With this base and the experience and additional education his profession can give him, he can develop rapidly into a professional accountant.

I do not want to overemphasize the need for liberal arts training. Personally, I believe there is a danger in overreacting to the former lack of liberal arts courses and too many credits in accounting. *Why must we go from one extreme to the other?*

Mutual Benefits of Working with Educators

At Touche, Ross, Bailey & Smart, we find that working with educators is a process of mutual development. This is true for all firms, large or small. We hope to bring educators our practical experience from the field and have them bring us new techniques and theory. We welcome the chance to work with them and to have them participate in our training programs. To further this relationship, we have held a number of seminars for professors. Last year, for example, we had several seminars in auditing and EDP. We held similar seminars in accounting theory and practice and in management services. We plan to continue seminars of this type.

In many ways the continuing development of an accountant and a professor are comparable. The process continues throughout a lifetime and is a combination of accumulated experience and new professional insight. When a university recruits a young instructor it makes sure the young man has gone through certain basic disciplines that will enable him to hold up his portion of the teaching and publishing load. The university takes reasonable care that the instructor moves soundly up the ladder of academic challenge and com-

petence. Professional development in accounting follows a similar pattern.

What Schools Should Develop

There are a number of things, I believe, the schools should do and the profession shouldn't have to do. For instance, accountants should acquire their basic communication skills in the schools. These skills are of ever-growing importance. As accountants, auditors, and as consultants, we deal more and more with people. We have to write and speak in order to persuade clients to accept new ideas and new ways of doing things. We should be able to write memos that others can read and translate into action.

The graduate should also learn a thorough knowledge of accounting theory in college. He needs a solid foundation in this. We would like to see more graduates come to us with a good background in quantitative methods, mathematics and statistics. We'd like to find more of them with a basic knowledge, at least, in EDP. But again, it is most important that they come with a receptivity to further development. No doubt, the change we have seen so far in information processing is just a prelude to even greater transformations in the future. The pace of change has made us even more aware of the importance of educators and practitioners working closely together. We depend on the colleges to give students a solid first step in the right direction, but we realize they can't do all of the training.

Redevelopment of Partners

The communications revolution is going to force more educational training hours into all our budgets. One of the most interesting aspects of this development fever will be the retreading or redevelopment of top business executives. This includes partners in accounting firms.

The business world ten years from now will be shockingly different from the one today. There will be new techniques, new systems to audit and control, and an almost unbelievable number of opportunities for management consultation. Before we can advise, though, we must have "know-how" ourselves. That is the great challenge which both the universities and the profession must face squarely.

They say that education today is one of the great growth industries. I think that the enormous intellectual resources of the colleges and universities will be used to much greater capacity in the years ahead simply for retreading or redeveloping the professional man.

The frontier of professional development now lies in the re-education of partners who may be inclined to think they have it made and then wake up one morning to a world that is uncomfortably new to them. If we do not carry out this program of redevelopment, the profession will find itself increasingly of two parts: professors and partners who have accepted and assimilated the changes and those who have not. Needless to say we want to avoid that split and its wasteful conflict of attitudes.

To encourage the development of managers and partners, every accounting firm must have a program that updates their management skills. One part of this program in our firm is a two week management conference which provides managers with an insight into the administrative framework of the organization. There are discussions of our own annual profit planning and budgeting, promoting services and ethics, personnel policies, international operations, and quality control. About one-third of the time is devoted to written and oral communications.

We have conducted, also, seminars for partners on communications with clients. A seminar on communications in staff development is currently on the management development schedule. It covers such topics as delegation, promotion, evaluation, consultation, and on-the-job training.

There are many avenues open for retreading partners, both in the technical and non-technical areas. Here are some possibilities:

Technical

1. Sabbaticals
2. Professional activities such as service on technical committees of the AICPA and State societies.

3. Executive development programs by universities
4. Teaching at the universities or in AICPA or in our own programs.
5. Courses in mathematics, statistics, quantitative methods

Non-Technical

1. Communications which would include psychological factors, writing and speaking.
2. The whole field of international business covering finance, business methods and customs, and languages.

Summary

Let me sum up my earlier comparison of a career in accounting with a journey. The first steps taken by an accountant are the most important. With the proper beginning in the university and a natural eagerness to get ahead, the young accountant will find good development opportunities available to him during his early years of practice. These should generate momentum to carry him well into his middle years and a position of major responsibility with his firm.

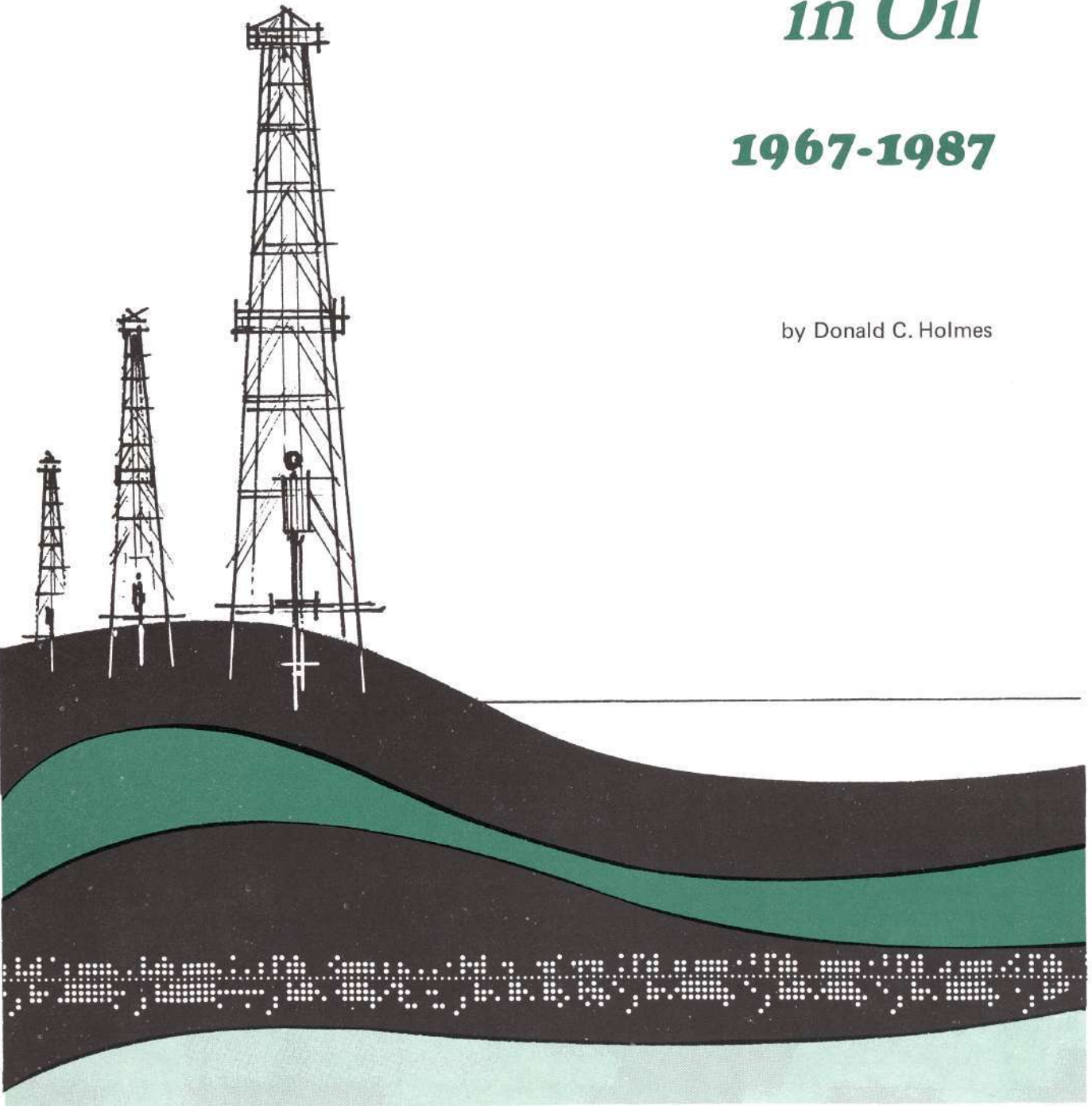
Through on-the-job training, local office programs, and nation-wide programs sponsored either by national firms for their own people or by various societies within the profession, the accountant gains the professional competence and experience.

The greatest challenge facing the profession, however, is to recognize the journey is not over when a man becomes partner. In his years as manager and partner, an accountant must make that final effort which raises his professional career, or journey, from an ordinary trip to a memorable and satisfying adventure.

Computers in Oil

1967-1987

by Donald C. Holmes



The petroleum industry, a leader in automation since the early days of process control instrumentation, has made extensive use of computers in most areas of operation as well as in accounting. There can no longer be any real question of the cost effectiveness of computers when they are reasonably applied. Nevertheless, great opportunities remain for using the computer imaginatively as a tool for operations control and general management. The challenge of the next round of development will be to fit computers and their supporting software systems for use in radical new ways, aimed at "getting more mileage" from technical and management people. There is a real need in the petroleum industry to conserve and to use more effectively the already available brainpower resources. This is the promise of tomorrow's "people-oriented-computer" systems that will inevitably replace today's "computer-oriented-people".

To bring these bright possibilities closer to reality there is great need for organized basic research into the possibilities and economics of interaction in on-line manager/computer systems.

Much also remains to be done in oil, as in other industries, to reconcile the data processing needs of operating management with those of financial management. Producing the variety of summary forms needed to serve the needs of both was out of the question with manual methods, because of the sheer cost, complexity, and volume of computations required. It still is not feasible, because today's accounting systems produce "boom" work-load peaks so large, relative to average load, that it is not practical for any reasonably-sized system to absorb the more or less continual summarization schedules needed by operating managers. The on-line real-time computer system of the future offers the only true hope of continuous accounting to level the work peaks and establish a unified management information system capable of serving all needs well.

Although computer hardware-software technology is nearing a useful state of development, the essential meeting of the minds and cross fertilization of ideologies between Engineer, Operating Manager, Accountant and Auditor has not yet taken place. The intention of this article is to point out some of the problems the computer is already solving for the petroleum industry in 1) exploration, production, and transport of crude oil 2) refinery design and management; and 3) product distribution. The article also considers problems of current systems and takes a look at systems of the future and how they may serve the industry.

No short summary can do full justice to the varied accomplishments of "computer-oriented-people" in the oil business. While each company has its own special strengths and weaknesses, the industry as a whole has made extensive, varied, and extremely productive use of the first and second generation computer systems. The following examples will give some idea of the range and complexity of current applications and also some idea of the major problems remaining.

Donald C. Holmes



Donald C. Holmes joined our Advanced Business Systems department as manager last January. He had previously been at Standard Oil Company of California as assistant manager of their Electronic Computer Center, and prior to that had been with California Texas Oil and the Shell Development Company. A registered professional engineer, Mr. Holmes graduated from the University of Pittsburgh with a BS degree and from Northwestern University with an MS degree in chemical engineering. He is a member of the American Institute of Chemical Engineers and the Association for Computer Machinery.

EXPLORATION, PRODUCTION AND TRANSPORT OF CRUDE OIL

In finding, recovering, and transporting crude oil, the following uses of the computer have been outstanding:

**Geological and Geophysical Mapping*

The calculation and mapping of the Earth's surface features and of slight variations or "anomalies" in gravitational and magnetic field at the surface assists in the choice of likely locations for more detailed seismic analysis.

**Seismic Interpretation*

The calculation and study of shock wave reflection patterns in the earth's near surface structures permits construction of estimated cross sectional profiles to indicate the location of folds and faults where oil is likely to be found. These indications are the basis for choice of sites for drilling exploratory wells. Explosive charges are detonated in various groupings at selected distances from the surface and the shock waves produced are recorded by "geophones" placed in various geometric arrays over the surrounding surface.

**Well Log Interpretation*

When one or more test wells have been drilled, more detailed analysis and identification of the structural layers can be based on microscopic examination of rock cores recovered in the drilling, on measurements of porosity, electrical conductivity, neutron absorption and the like as a function of depth in the well. Computations involved are statistical counting of microfossils and correlation of physical properties with the known characteristics of similar deposits in other fields. Such studies, initially in one hole and later in a number of holes strategically placed over a field, help to define the three dimensional boundaries and the magnitude of the useful deposit. Extremely complex mathematical treatments of the differential equations representing multi-phase flow in irregular regions of porous media lead to determination of the best techniques for recovery of the oil contained.

**Well Drilling Control*

Data on hardness and thickness of the rock layers to be penetrated, obtained from exploratory and early producing wells, are fed into mathematical programming models to predict the type of drill to be used, the speed and loading of its rotation, and the pumping rate

for drilling mud that will minimize the cost of drilling later production wells.

**Field Development Optimization*

Mathematical programming models are now used to determine in advance the best number and location of wells and the best removal rates and secondary recovery treatments (water injection, flushing of the "sand" with light hydrocarbon solvents etc.) that will result in maximum profit over the full life of the field. Initial approximations are refined as production history accumulates.

**Property Acquisition Studies*

Bids for property acquisition must be made on the basis of very fragmentary and incomplete knowledge of the fields potential and problems and of future price trends. These factors of risk are weighted with the effect of the time value of money in order to develop the range of prices within which bidding will maximize chances of winning the property while insuring a probable profit of sufficient magnitude to warrant the risk.

**On-Line Well Testing and Transfer Gauging*

Daily management of individual wells, from checking their production performance to accounting for the amount of oil produced and the royalty payments due, currently comes under the control of specialized on-line computers. Future well operations will be unattended for the most part; the computer will call in the repair crews when individual wells need special attention.

**Pipeline Operation and Accounting*

Oil collected from myriads of wells is now transported by highly automated pipelines over at least part of its route to the refinery. Remotely controlled and unattended pumping stations move it on its way. In the larger common-carrier pipelines, computers operate the valves that control entry into the line of successive "slugs" of different crudes and that divert the mixture to storage at the proper delivery points. The engineering design of the pipelines is highly dependent on computers. Sizing of peripheral tankage and determination of basic operating policies is sometimes assisted by digital computer simulation of the proposed physical system under a variety of probable operating conditions.

REFINERY DESIGN AND MANAGEMENT

**Refinery Optimization*

The design and operating control problems of modern

refineries are extensively treated by computer methods. Refinery technology consists of a variety of physical separation and chemical conversion steps which can be combined in different ways to produce a variety of product blending stocks from many available crudes. But the price of flexibility, as always, is the necessity to choose among a bewildering variety of alternate operating patterns. Only a few can be examined in detail, by case study methods, even with the assistance of today's computers. As a result, heavy emphasis has been placed on formal mathematical optimization methods.

But modern mathematical technique is not really "up to" the job. Detailed representation of a refinery's processing flexibility requires extensive handling of non-linear effects; but the model of an individual refinery under one seasonal demand pattern becomes so large, when handled in full detail, that critical multi-seasonal and inter-refinery effects must be largely neglected. Also the cost of solving such models essentially prohibits their use for frequent minor revisions of the plan. On the other hand, rough representation of the refinery in linearized models permits study of seasonal and multi-refinery problems and gives a daily operating tool; but it does this at the risk of erroneous results from an oversimplified representation of the process. For these reasons, refinery optimization and overall process design is today more art than science, more mystique than rule book. Yet the substantial amounts of money that could be saved by relatively small improvements in refinery cost efficiency virtually guarantees that money will be spent on further development, and that further progress will be made; better machines, retrained minds, and more sophisticated methods will be applied as they become available.

**On-Line Process Control*

On-line control of processing equipment has now been applied to a variety of individual operating units within refineries. Some of the major companies are considering or installing supervisory control computers to coordinate the work of several individual computer-controlled process units. Some tank farms are completely automated and the computers can now sense directly all the data needed to compute material balances over the whole refinery and all its units.

**Continuous On-Line Blending and Blending Optimization*

Though not a computer application, per se, continu-

ous on-line blending of primary refinery stocks is an accomplished reality and replaces traditional tank blending, testing, and adjustment practices, at least for large volume staple products such as motor fuel. The blending of specialty products like lubricant oils and greases is still largely by batches, however, because of the variety of formulations, the relatively small volumes involved, and the complex interplay of blender scheduling with inventory management of package products. Joint study of inventory reordering and specialty manufacturing adds a dimension of complexity to the usual techniques in both areas, creating an opportunity for a profitable computer application that is beginning to be explored and exploited. Whether to ship from stock or blend to order, and, if blending to order, whether to blend and how to package additional stock for the warehouse can be a complex decision to make. Manual systems must adopt manageable rules of thumb which, it is now clear, can be substantially improved upon by computerized combinations of mathematics and common sense.

PRODUCT DISTRIBUTION

Computers have been widely applied by the oil industry in the designing of distribution systems but generally on a traditional case study basis. In such work the right arm of an analyst is much extended by computer assistance; the number of cases covered in a large study has increased astronomically, in recent years. The payoff is usually clear in that the final result is substantially better than cases chosen at the beginning of a study project. Relatively little progress has been made in mathematically optimizing overall refinery/distribution systems because full treatment of the refinery "nodes" and the distribution "nets" are each beyond present limits of definitive treatment by computer. The methods and the machines are evolving, and improved versions of both are needed. It will be perhaps 10-20 years before we will reach any degree of overall effectiveness in this area. In the meantime the analyst chooses cases by intuition, studies the results, and chooses new cases until a consensus to go no further is reached. The more that new computer access systems improve the sequential intuition-building process, the better will be the designs attained.

Individual suboptimizations have been achieved in a number of areas. Warehouse location studies by computer are fairly common and on-line freight rate checking and route choice is coming into wider use as the

necessary mass storage capability in computers becomes more available and lower in unit price. Mathematical models are regularly used in sizing and financing pipelines and tanker fleets and in analyzing bids for government supply contracts.

Automated wholesale terminals are now of proven technical feasibility. Here the trucker identifies himself and his customer by card-in-the-slot techniques. He dials type and quantity of materials to load. Then he connects the loading nozzles himself, loads, and drives away with a computer prepared shipping manifest. Back at the office, the loading and other data are automatically posted in the accounts for periodic consolidated billing and statistical analysis. The terminals operate virtually without attendance on a 24-hour, 7-day week basis. Customers like the full-time availability of products; it reduces the risk of tight inventory control practices. Truckers like the reduced costs obtained by the round-the-clock utilization of their equipment. Oil suppliers like the increased business and increased utilization of terminal equipment.

**Problems of Current Systems in the Oil Industry*

Except for the specialized on-line process control computers and a few dedicated on-line computers in distribution terminals and the producing fields, virtually all oil industry applications are handled by computer systems operating in the batch mode. Most of these systems are "justified" on accounting applications, or must at least give accounting applications high priority at periodic "closing" periods. In the long run it is probable that the value returned per dollar spent is much higher for technical and operations management than for custodial accounting. Yet, operating management cannot accept the computer as tool until it can be made continuously available.

The reasons for the disproportionate influence of accounting on computer uses are fairly clear: financial executives traditionally have had a well-justified responsibility for custody over corporate funds; substantial volumes of corporate funds can be lost in a poorly managed computer venture; prompt delivery of accounting results is needed by custodial management and is getting more and more impossible as the complexity of the oil industry grows. Accounting reports, though usually very imperfect inputs for guidance of operating management's control decisions, remain the performance criteria on which operating management is judged.

How and how much better to make the accounting

results look next time is another problem on which a veritable army of technical people of all levels are constantly at work, in parallel with the official accounting system. Too often the right decision is a hard one to accept because it will make the accounts temporarily look worse.

Accounting-oriented management of computer development has frequently failed to recognize and prepare for the radically different reporting systems needed to serve operating management and to judge performance fairly. A number of large companies are now recognizing this and establishing data processing divisions separate from all the categories of line and accounting management. These divisions report to very high management levels. The hope and objective is to provide an interblending of skills and an understanding of all sides of the complex accounting/technical problem in a climate that resolves the traditional conflicts of interest. Some progress is being made toward this objective. It is very difficult, however, for people who have emerged from the training filters on opposite sides of the traditional organization to take the broader viewpoints needed. It may require a new generation of people trained in a new broadly based school to solve the problem.

In the meantime, professional consultants offer the services of imaginative people who have been unwilling to be narrowed by the traditional conditioning process. They also offer people who have experience in other related and unrelated industries. Both of these types can provide a broadening influence for integrated data processing management. The firm of Touche, Ross, Bailey & Smart, in particular, has developed a unique approach to accounting methods. Known as profitability accounting, it is the first successful effort to reconcile operating and accounting needs with objective planning and performance appraisal.

FUTURE SYSTEMS POSSIBILITIES

Three important points are beginning to be clarified and appreciated by management in the oil industry and elsewhere.

First, the real payoff of computer systems will be in truly integrated operating management of a company's total resources, physical, human, and financial. This cannot be done with today's systems because day to day operating management simply cannot afford to rely on computers that are not continuously available. And it properly demands an operations oriented accounting

system to guide it to the most profitable decisions.

Second, the reason today's systems are not continuously available is the accounting peak load problem. The real causes of accounting work-load peaks are batch oriented systems that, in the name of (probably false) economy, put off data entry, validation, and summarization to the last minute.

Third, the "intangible" losses of technical creativity, that result from *any* appreciable delay in the return of computer results to operations and management analysts, generate a very real and substantial cost in the under-utilization of available manpower. A case can be made, in fact, that systems with average job turnaround times of as low as two hours (exceptionally good in today's practice) result in a waste of computer resources; when forced to run blind, the analyst with an important deadline typically runs many more cases than would be needed if he were able to feel his way, step by step, with the computer's instant assistance at each step.

Design of the computer systems of the future must take full account of these factors if future systems are to have maximum effect in improving petroleum management's understanding insight, and control. The hardware is available and the basic software is coming. But arduous research and systems analysis remain to be done to adapt them to truly integrated management needs. This work is only beginning; the need for much of it is only now being recognized.

On-Line Real-Time. The Key to Future Success

The general shape of things to come will be, indeed *must* be, On-Line Real-Time. Only in this way can the accounting workload be leveled so that a computer system of reasonable size can be made continuously available to management analysts of all types at the time of their real needs.

The term "On-Line Real-Time" is here intended to mean "as fast as the man needs it and as much as he can use to advantage." Not every manager needs instant access to the last detail or the last minute's operating results. Top managers, in particular, should probably *not* concern themselves with "yesterday's sales of nuts and bolts in Tuscaloosa." But they do need evaluation, within a few minutes, of the probable effect of a suggested policy revision on projected future profits. Thus they do need to have the computer controlled display screens on their desks (or in their conference rooms). But their use of these devices must be special-

ized to their real functions in the organization. The need for instant access to data is greatest at a much lower level: that of the men who "turn the valves" which correct today's operations. These are the ones that need the kind of computer access systems that have been frequently—and erroneously—proposed for top managers.

It should be plain that the justification and design of on-line real-time systems, that qualify in the light of this definition, bring us face to face with the many unknown facets of the general problem of effective human interaction with computer systems. In the oil industry this is an almost untouched area for research in computer system design. No one really knows how much a properly reoriented man could do with a properly reoriented system if both were available. This, in itself, is not deplorable in the early days of a newly emerging technology. What is truly deplorable is the magnitude of money the industry is quixotically expending on development of computer systems, with hardly any inquiry at all into the potentialities and economics of different systems approaches.

The Peak Load Problem

Why is it that today's accounting systems periodically overload any reasonably sized computer system? In almost all existing accounting systems, data is accumulated into substantial batches before entering the processing system. At least the last week's data from a "thousand and one" sources must then be keypunched, verified, batch totalled and computer validated before final summarization can proceed. Inevitably, though, summary runs at various levels fail, due to obscure errors that cannot be found in batch totalling and similar early checks. Then, in the middle of a high-pressure peak in work, when people are most likely to be flustered and prone to make mistakes, the errors must be found, the sources queried for corrections (or arbitrary corrections made) and the summary runs must be repeated—again and again—until a satisfactory compromise with full accuracy is reached. Meanwhile, management is waiting for the accounting results on which they will judge or be judged. The inevitable result is that all available people and machine capacity must be used to clean up the mess—for hours and sometimes for days at a time.

All shops size their computers more or less to the average load, on the hypothesis that the greatest economy comes with a "fully loaded" machine. Any installa-

tion that has enough capacity to serve all comers at peak accounting periods is a "sitting duck" for sub-optimizing economy jags that ignore the overall problem. Consequently such a benign situation rarely persists for long. If nothing else, the work load is allowed to grow without corresponding increase of capacity until the peak load norm is approached.

The accounting system of the future *must* and *will* avoid the peak load problem. It will be a continuous system; data will be entered continuously and from the point where it originates, often by automatic data collection devices. Computer validation tests will be made immediately, while the facts are hot, to eliminate all obvious and many subtle errors as they occur. Frequent summary and balance checking operations will be run as background operations, in the idle moments every system has between demands for immediate attention to more urgent work. These will find the more obscure errors on a continuous basis. Most of them will be spotted and corrected long before final summarization is needed. Corrections will be introduced continuously under circumstances that permit careful reflection before action. The systems themselves will act as constant monitors and instructors for all the people involved, reminding and re-instructing them immediately when they make errors. Final summarization will require little additional central computer time and will interfere only marginally with on-going management control processing.

When accounting peaks have been leveled, a system sized for a relatively small increment of capacity over average work load will have time available continuously for direct on-line managerial use. Until the accounting peaks have been removed, though, operating managers cannot and should not be forced to use central computer systems to the full. They will either be slow to adopt new methods or will demand systems dedicated to their use. The latter course is bound to be self-defeating. It is a solution custodial management must resist. Where it is partly or temporarily overridden, the operating manager will still be making-do with a less than optimally capable system, which will slow his development and acceptance of new tools and methods.

The Challenge of On-Line Access Terminals Types

On-line access to future computers will be effected through a great variety of terminal types. These can be classified into two major groups based on their degree of "conversational" capability.

Conversational access places greater demands on the central processor and the systems software because of its demand for immediate attention whenever any one or several of a large and varying number of people happen to push a button. It is essential in the phases of processing where intimate communication is needed at a man's speed of understanding. It will be right for entry of data on a continuous flow basis and for subsequent entry of corrections and instructions for processing control. It will be wrong for entering large masses of data already in machine-readable form and for returning voluminous print-outs of machine results such as large reports and program listings.

Conversational terminals are exemplified today by the teletypewriter, which is the only one in wide use. Full-font typewriter units are now available and will find increasing use, especially where quality of output copy is a requisite. Various sorts of cathode ray tube terminals are coming into use; their speed and silence will be great advantages where hard copy is not required and where many units must be ranged together. They will be ideal for interrogating, correcting, processing control, and directing results to various local hard-copy printers at human speeds.

Relatively high speed terminals will include paper tape, magnetic tape and card readers with a variety of printers of various speed capabilities. These will *not* access the computer in a conversational mode, however. Once they have been charged with input files or with the forms needed for a volume output job, the computer will be alerted, often by a separate conversational terminal. Data will then flow at greater-than-human or greater than the conversational terminal speeds can possibly pace. Such volume-oriented terminal units require much more capable transmission facilities than do the slow conversational units. They must consequently be designed for much higher use factors, if they are to be economical. It would be as immature to use such "job-entry" and "job-output" devices for conversational contacts as to use a teletypewriter to produce volumes of reports.

A substantial part of the systems designer's job, in the coming years will be to develop a rational way to determine the best numbers and locations of the various types of input-output terminals to be installed in a given system. To do a good job, this problem must be solved in the light of total costs of man/machine communication. Many factors that are today considered "intangible" must be put on a reasonably quantitative basis

and included in the design criteria. Future systems must be judged in terms of performance as it affects people. Measures like turnaround time distributions and frequency of occurrence of overload conditions must come into general use as the truly revealing indices of total system performance. Target values for these measures must be determined by experimental study of the total economics of man/machine performance on a variety of tasks, under a variety of conditions.

Using Storage Capacity to Full Advantage

The systems of the future will demand very large on-line storage for an immense variety of information. They are needed to make all of the information accessible, without intervention by people not involved in formulation of the problem. Each additional person who must participate adds substantially to the delay in obtaining answers. Every increment in delay limits the kinds of applications that can be entrusted to computer systems. It really should not matter whether people have been accustomed to accepting delays in the past; the criteria should revolve around the cost effectiveness of people as a function of delay. No one knows where the best balance lies; but it is very likely that substantial decreases in delay will permit substantial increases in performance, as people learn how to use short delay systems effectively.

The net incremental cost of large on-line storage capacity is not as high, even now, as most people assume; and it is falling rapidly. The reason it seems so high is that few people realize the magnitude and growth rate of today's continuing investment in sparsely filled magnetic tapes, the space to store them and the people to handle them. The nature of tape processing limits our ability to use all the available space on tapes already purchased. It is doubtful if any general purpose computer shop achieves over 30% utilization of in-service tape storage capacity; most are probably much below this level. Mass storage systems offer the possibility of reaching much higher utilization factors. Reliable methods to allocate and reallocate a variety of files within a mass storage device, to protect security

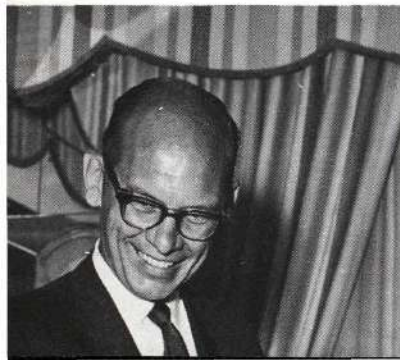
of all confidential information, to provide for easy and reliable retrieval and to motivate people to release space at the optimal time are still in an embryonic state. Sound development of this aspect of the technology is one of the most demanding, difficult and important challenges the oil industry must face.

SUMMARY

Discussion of these systems possibilities and problems in the context of oil industry applications and problems does imply that the problems are limited to the "oil front." Quite the opposite, these are general problems all industries encounter. And proper solutions will benefit all classes of users, large and small, scientific and commercial. Each year it becomes clearer that the principles of good data processing are universal.

Oil people have tended to remain aloof, to act as if their problems are special. Consequently they are often not aware of the progress in other, supposedly unrelated, industries. With the realization that other people are solving problems of mutual interest can come a broadened effort to share information and techniques. To be sure, most oil companies send technical systems people to interindustry conferences on these topics. But by and large, managers who should be sensing the needs and possibilities of the new systems and guiding the direction and intensity of development efforts, have kept their heads in the sand. Without sympathy and understanding and direction on the part of management, the success of technical people in winning approval for new research and design investments is bound to be spotty and more or less uncoordinated.

The crucial problem in developing computer systems and applications for use in the oil industry is thus the problem of developing management interest, awareness, understanding and direction. The gap cannot be bridged by assigning low level experts to study and propose projects to an indifferent management. Rather, management must itself understand and become involved with new applications of computer systems to the functioning of the management process. This is the true hope for realizing the wonderful possibilities of the oil industry's future.



Our New Partners

Twenty new partners met in New York on August 9th to sign the Partnership Agreement, meet with the Policy Group, and learn about the future plans of the firm. Their pictures and brief biographical sketches appear on the pages that follow.

Serious discussions and happy faces were the order of the day. 1. In discussion before lunch, Arnold E. Ditri, Vern C. Hakola and Howard J. Peterson wait to enter dining room. 2. Chairman of the Policy Group Robert M. Trueblood congratulates San Diego's Robert J. Mooney, while Keith Cunningham reads material for the next partner. 3. Keith Cunningham enjoys conversation with William G. Gaede. 4. Norman C. Grosman listens to story told by Policy Group member Edwin Heft. 5. James I. Johnston and managing partner Robert Beyer. 7. David J. VanderBroek and Andrew C. Ries at luncheon.





In Atlanta . . .

ROBERT E. MINNEAR

Robert E. Minnear joined our Dayton office in 1953 and moved to Atlanta five years later. He graduated from Ohio State University with a BS in Business Administration and placed first in the 1955 CPA exams in the state of Ohio, also received honorable mention in the Elijah Watts Sells Awards. Mr. Minnear is a member of the Atlanta Chapter of NAA (Board of Directors); Atlanta Chapter of the Institute of Internal Auditors (Board of Governors); Georgia Society of CPAs (chairman, State Committee on CPA Indoctrination) and chairman, Atlanta Chapter Programs Committee; American Accounting Assoc.; and the AICPA.



In Boston . . .

HOWARD J. PETERSON

Howard J. Peterson, who moved to the Boston office this month, joined the Portland audit staff in 1955, transferred to Detroit MS in 1958, and Portland MS the following year. He graduated from the University of Oregon in 1955 with a BS in Business Administration and received the Outstanding Accounting Student Award. Mr. Peterson is a member of the Michigan Association of CPAs and the AICPA. He was formerly a member of the Oregon Society of CPAs (chairman, Management Services Committee); Portland Chapter American Inventory & Production Control Society (president); and Pacific Northwest Chapter of The Institute of Management Science (vice chairman).



In Chicago . . .

ARNOLD E. DITRI

Arnold E. Ditri, who has been admitted as principal, has been with Touche, Ross since he joined the Detroit office in 1963. He moved to Chicago in 1966. He graduated from Wayne State University where he received a BS in Finance. Mr. Ditri is a member of the American Marketing Association.

In Dayton . . .

JAMES C. BRESNAHAN

James C. Bresnahan joined the management services staff of our Detroit Office in 1955 and moved to Dayton two years later. He graduated from the University of Tennessee with a BS in Industrial Engineering, and from Carnegie Institute of Technology with a MS in Industrial Administration. Mr. Bresnahan is a member of The Institute of Management Sciences (past president); NAA (director, Dayton Chapter); Ohio Society of CPAs (State MS Committee chairman, Dayton MS Committee chairman); and the AICPA.



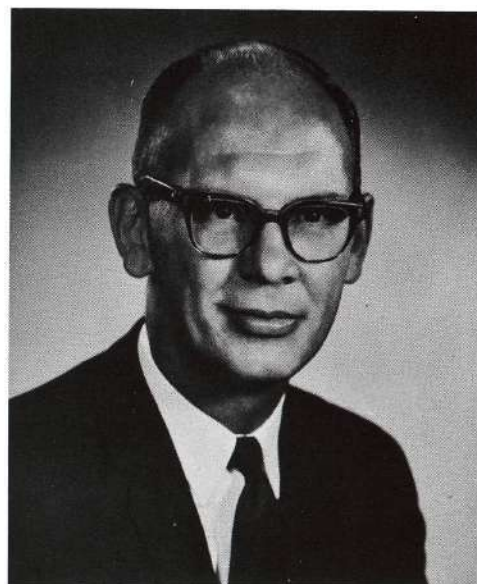
ALAN D. HENDERSON

Alan D. Henderson joined our Pittsburgh office in 1957 and transferred to Dayton in 1966. He graduated from Drexel Institute of Technology with a BS in Business Administration, and from the University of Pittsburgh with a Masters in Business Administration. Mr. Henderson is a member of the American Association of Hospital Accountants; NAA; Middle Atlantic Placement Association; Ohio Society of CPAs; Pennsylvania Institute of CPAs; and the AICPA.



FRANCIS P. RIESER

Francis P. Rieser has been with the Dayton office since 1948, when he graduated from Ohio State University with a BS Degree. Mr. Rieser is a member of the Ohio Society of CPAs and the AICPA.





WILLIAM R. SUTHERLAND

William R. Sutherland joined our Detroit office in 1954, moved to Milwaukee two years later, and has been in the Dayton office since 1966. Mr. Sutherland graduated from the University of Wisconsin where he received a BBA and a JD Degree. While in Milwaukee he was a member of the Wisconsin Society of CPAs (chairman of Tax Clinic); and Estate Counsellors Forum (president). He is presently a member of the Ohio Society of CPAs and the AICPA.



In Detroit . . .

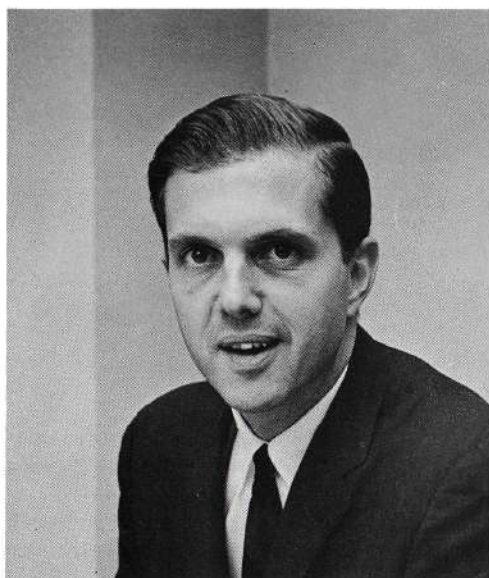
RICHARD A. PATTERSON

Richard A. Patterson joined our Detroit office in 1960 and in 1965 spent time as an exchange in London. He graduated from the University of Michigan with a BA and a MBA. Mr. Patterson is a member of the Detroit Chapter NAA (Board of Directors); Michigan Association of CPAs (Audit and Publication Committees); and the AICPA.



DAVID J. VANDER BROEK

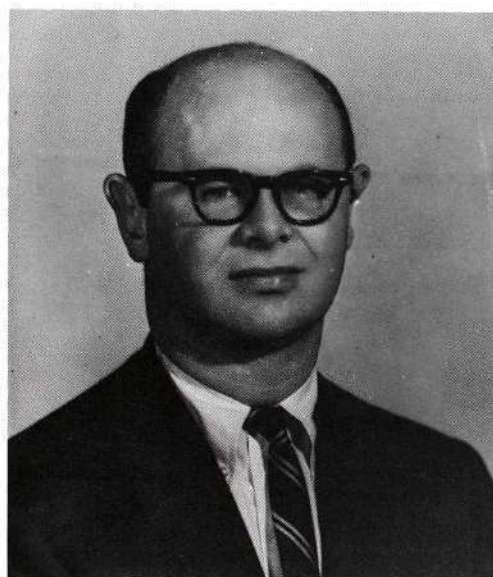
David J. Vander Broek has been with the Detroit office since 1957 where he served on both the audit and tax staffs. Mr. Vander Broek, who received first prize in the Touche, Ross 1964 Competition for Published Articles, graduated from Michigan State University where he received a BA in accounting. He is a member of the Michigan Association of CPAs (Federal Tax Committee; secretary) and the AICPA.



In the International Coordinating Office . . .

JAMES I. JOHNSTON

James I. Johnston joined our Pittsburgh office in 1952, moved to Washington in 1957, and has been in the International Coordinating Office in the Executive office since 1960. He is a graduate from the University of Pittsburgh where he received a BBA in 1953. Mr. Johnston is a member of the New York State Society of CPAs, NAA and the AICPA.



In Los Angeles . . .

NORMAN C. GROSMAN

Norman C. Grosman joined our New York office in 1955 and moved to Los Angeles in 1963. He is a graduate of the University of Pennsylvania where he received his BS and MBA degrees. Mr. Grosman is a member of the California Society of CPAs (Accounting and Auditing Committee, Los Angeles Chapter); and the AICPA.



VERN E. HAKOLA

Vern E. Hakola, who has been admitted as principal, joined the Executive office in 1961 and moved to the Los Angeles management services staff in 1963. He received a BBA from Michigan State University and studied graduate accounting at Wayne State University. Mr. Hakola is a member of the Systems and Procedures Association and the Association for Computing Machinery.



In Memphis . . .

DON F. STARK

Don F. Stark joined our Milwaukee office in 1955 and moved to Memphis in 1963. He received a PHB in Commerce from the University of Notre Dame and a LLB from Marquette University. Mr. Stark is a member of the American Assoc. of Accountants; NAA (director, Public Relations, and director, Member Attendance); Tennessee Society of CPAs (Tennessee Tax Institute chairman, State Taxation Committee; and Liaison with Internal Revenue Service); and the AICPA.



In New York . . .

ANTHONY E. RAPP

Anthony E. Rapp joined our Pittsburgh office in 1956 and moved to the New York office in 1963. He graduated from the University of Pittsburgh where he received a BBA in accounting. Mr. Rapp is a member of the Pennsylvania Institute of CPAs; New York State Society of CPAs; NAA; American Accounting Assoc.; and the AICPA.



In San Diego . . .

ROBERT J. MOONEY

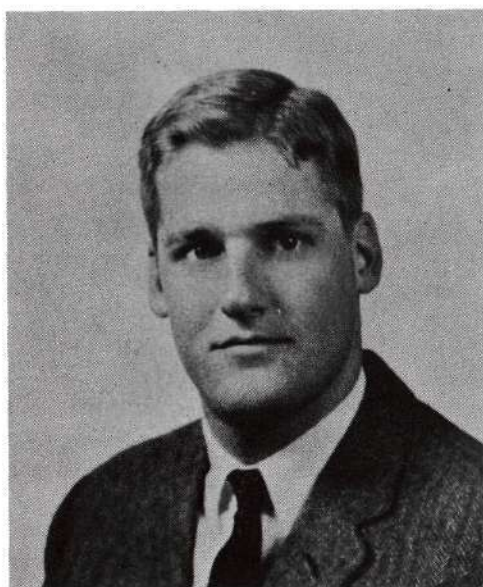
Robert J. Mooney joined the firm in 1955 and worked in our Kansas City, Seattle, Minneapolis and San Diego offices. He graduated from the University of Nebraska with a Bachelor of Science degree. Mr. Mooney is a member of the California Society of CPAs; Minnesota Society of CPAs (chairman, Estate Planning Committee); Washington Society of CPAs; NAA; and the AICPA.



In San Francisco . . .

ROBERT L. BEAN

Robert L. Bean joined the tax staff of our San Francisco office in 1959. He graduated from the University of California with a BS degree. Mr. Bean is a member of the California Society of CPAs (former member of the Federal Tax Committee); and the AICPA.



RICHARD S. BODMAN

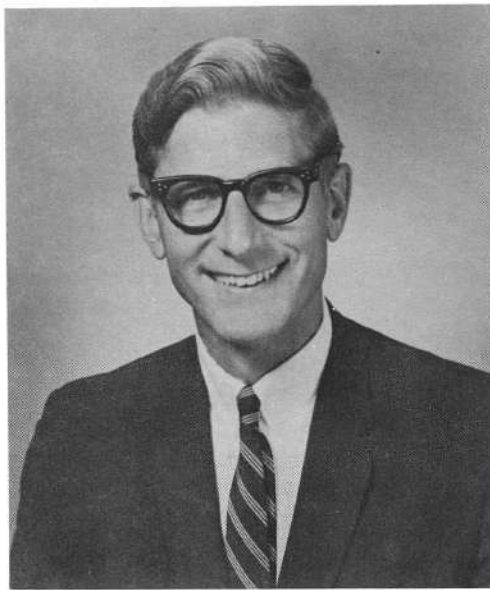
Richard S. Bodman joined our San Francisco office in 1961. He graduated from the Massachusetts Institute of Technology with a MSIM, Princeton University with a BSE, and received his CPA from the State of California. Mr. Bodman is a member of the California Society of CPAs (past president of Management Services Committee—San Francisco Chapter, Systems Conference Management Committee, State Committee on Management Services); Budget Executives Institute (President—San Francisco Chapter); American Arbitration Assoc. (National Panel of Arbitrators); and the AICPA.



In Seattle . . .

WILLIAM G. GAEDE

William G. Gaede joined the Seattle office in 1959 and is presently in charge of management services there. He graduated from Pomona College with a BA in philosophy, and from the Graduate School of Business—Stanford University with a MBA. Mr. Gaede is a member of the Washington Society of CPAs (Meetings Committee); and NAA (former director of Meetings—Seattle Chapter, former assistant director of Membership—Seattle Chapter).



In St. Louis . . .

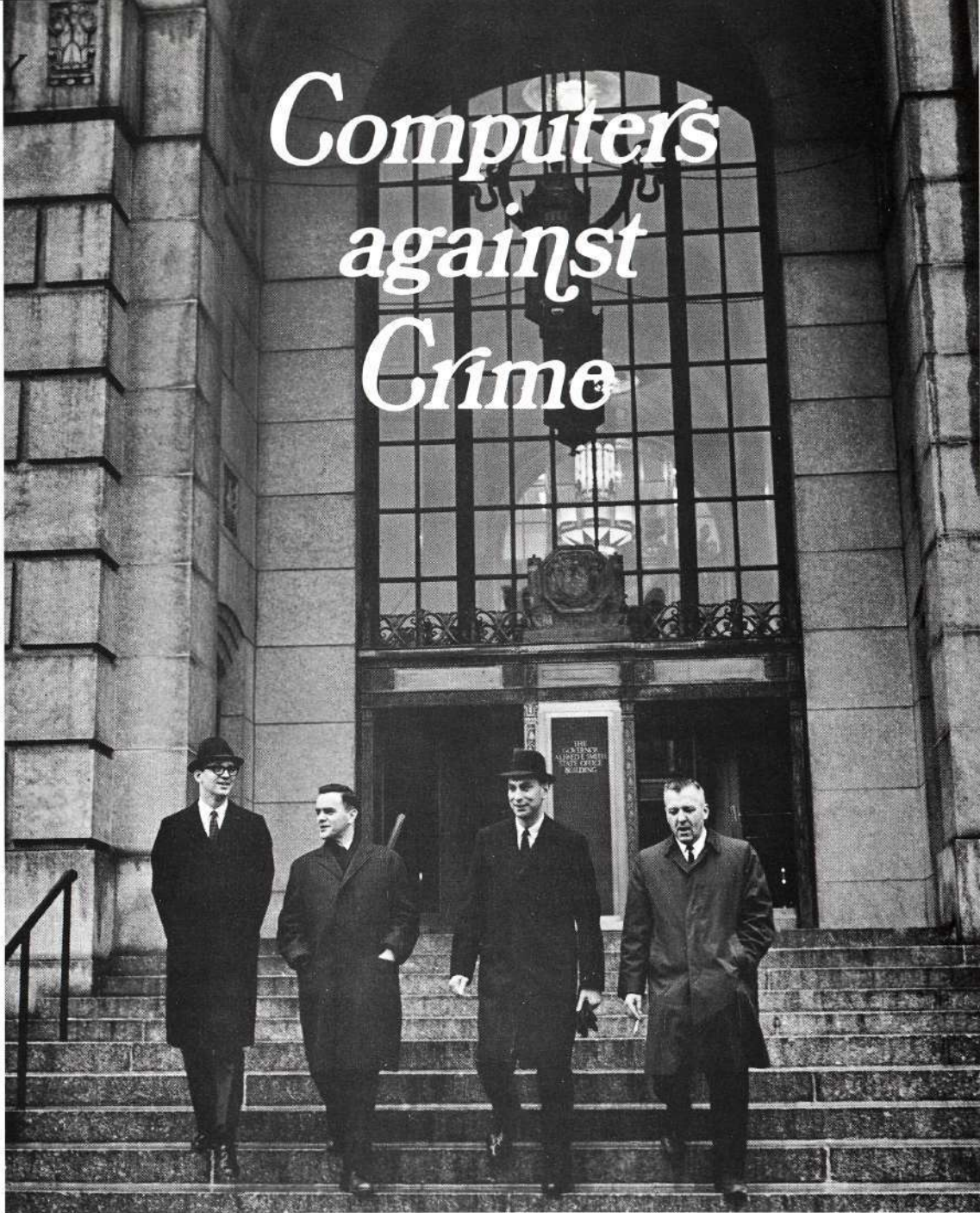
ANDREW C. RIES

Andrew C. Ries joined our St. Louis office in 1958. He is a graduate of St. Louis University where he received a Bachelor of Arts and a Bachelor of Law degree. Mr. Ries is a member of the Missouri Society of CPAs (Member of Council, Legislative Committee, chairman—Federal Taxation Committee); and St. Louis Chapter—Missouri Society of CPAs (chairman—Legislation Committee, chairman—Federal Taxation Committee, chairman—Monthly News Publication, Mid-America Tax Conference Committee); and the AICPA.



THOMAS J. NIEMANN

Thomas J. Niemann has been with our St. Louis office since 1957. He is a graduate of St. Louis University where he received a BS in Commerce and Finance and a MS in Commerce and Finance. Mr. Niemann is a member of the Missouri Society of CPAs (Meetings Committee); NAA; Greater St. Louis Retail Controllers Group; St. Louis Chapter—Missouri Society of CPAs (Program Committee); and the AICPA.



Computers against Crime

The Touche, Ross staff works in NYSIIS headquarters at The Governor Alfred E. Smith State Office Building. Leaving for lunch are Thomas H. Sheehan; NYSIIS assistant deputy director of Systems Operations, Charles E. Robinson; Sanford S. Ackerman; and NYSIIS deputy director Paul T. Veillette.

Touche, Ross, Bailey & Smart has enlisted in the war on crime. Its objective: to help New York put the computer "in the pocket of every law enforcement official" in the state.

Spearheaded by Governor Nelson A. Rockefeller, the New York State Identification and In-

telligence System (NYSIIS) under the direction of Dr. Robert R.J. Gallati, is the first system of its kind in the world. It has been cited as "the largest study group at any level of government engaged in the scientific investigation of crime."

NYSIIS is scheduled for launching on a limited

basis in the near future. By April, 1968 its Fingerprint Facsimile Network will include 40 key criminal justice agencies throughout the state. The long-range goal is to establish in Albany a computer-based data bank tied into a sophisticated communications net-work. NYSIIS is expected to store, retrieve and disseminate pooled information for some 3,600 criminal justice agencies. Input-output equipment located at the agencies served

will permit direct communications with the computer facility.

The key ingredient, so urgent in the apprehension of criminals, is time. Previously, for example, it took 7 to 10 days to transmit a set of arrestee fingerprints to Albany, search the file, and return a criminal history to the submitting agency. With the NYSIIS Facsimile Network, a set of prints will be transmitted and reproduced in approximately

TRB&S Personnel at NYSIIS

More than twenty Touche, Ross management services specialists are working in Albany on the NYSIIS project at the present time. Representing seven different TRB&S offices, these men have worked with the NYSIIS staff, with police officials, and with other agencies for more than two years. The pictures shown here were taken on a typical work day.



John W. Bauer, supervisor of the Fingerprint Study Group, (New York) office, Randolph Wilson (San Francisco) review the results of controlled statistical experiment with a fingerprint classifier in the NYSIIS Bureau of Identification.



Progress at NYSIIS is recorded on a huge wall chart that shows work tasks and their relationship to the overall system design effort.



Alan F. Stevens, (New York) Bart Bolton, Phase Two Supervisor, (Detroit) Kenneth Shaaf, (Milwaukee) and Frank Wagner (Detroit) discuss a tough quality control problem.

14 minutes. It will take another minute to send back a "No Record" form if no arrestee information is on file. Or less than five minutes to return a "Rap Sheet" to the submitting agency if a criminal history is stored in the computer's memory.

But NYSIIS plans extend much beyond the routine processing of police information. Operational techniques and methodology will be studied in depth, new developments and technology an-

alyzed, the resultant research findings shared with the criminal justice community.

NYSIIS represents a new dimension in the science of criminology and citizen protection and security. As NYSIIS Director Dr. Robert R.J. Gallati puts it: "We are confident that the technology of a nation which can send a man whirling through space can mobilize major resources to improve criminal justice administration here on earth."

Toward this end NYSIIS is dedicated.



Thomas H. Sheehan, TRB&S project manager at NYSIIS for the past two years, is a manager in our New York office.



In the computer room Sanford S. Ackerman, the Touche, Ross principal directing this engagement, talks with Dr. Robert R. J. Gallati, director of the NYSIIS project.



In one of the many system design and coordination meetings, Frank Mullen, (Detroit) and Thomas H. Sheehan talk with NYSIIS deputy director Paul T. Veillette.



The development of the NYSIIS criminal justice data base depends on rigorous systems planning and the kind of attention to detail shown here by New York's Peter Loftus and E. Peter Haas, Supervisor of EDP System Design Group, and David De Hetre, St. Louis.

The Current Crisis in Financial Reporting

by Howard I. Ross
reprinted from
The Canadian Chartered Accountant

Howard I. Ross, chancellor of McGill University, a partner of Touche, Ross, Bailey & Smart and a past president of the Canadian Institute presented the first of the C. L. King Memorial Lectures last November at the Universities of Edmonton and Calgary. Seldom has the relationship between the profession and its role in providing financial information been so deftly described as in his remarks delivered in Calgary. [Ed. Note]

many non-profit institutions which play an important part in our economic life. To them we have two vital services:

- (a) the development of the best possible information systems,
- (b) the provision of professional advice on management.

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 HARRY G. TROXELL, Detroit
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 DAVID H. WARD, Detroit
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 RICHARD A. LEVINE, New York
 ARNOLD D. LEVITT, New York
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 J. GARTH WHEELER, Seattle
 JAMES W. WOOLLEY, New York
 JOHN A. YERRICK, Washington, D.C.

Faces in the News



Karney A. Brasfield, partner in charge of our office in Washington, D.C., receives the Robert W. King Medal from Fletcher Lutz, president of the Federal Government Accountants Association. This award is given to one person each year in recognition of service to the organization. FGAA, with thirty-odd chapters organized in 1950, now has 6,000 - plus members. Mr. Brasfield is a founding member and a past national president.



Touche, Ross managing partner Robert Beyer has been a frequent speaker on Management Information Systems in the Space Age during the past few months. His next scheduled appearances will be before National Association of Accountants' chapters in Pittsburgh, Omaha, Buffalo and Worcester.

At the Touche, Ross National Auditing Conference held at the University of Wisconsin, instructors Joseph A. Fillip (Pittsburgh); Stephen A. Findley (Milwaukee) joined with Louis A. Werbaneth, Jr., (partner in charge in Pittsburgh); Phillip B. Foster (Executive office); and instructor Philip R. Vanden Berge (Grand Rapids) in listening to Thomas M. O'Toole (Denver) recounting a humorous experience. Two two-week sessions of this conference were held for new personnel in June.





C. Evans Lawton receives congratulations on his election as president of the New York Chapter of the National Association of Accountants from out-going president, Donald H. Cramer, our national director of personnel. The New York chapter placed third in the Stevenson competition this year.



Mr. and Mrs. Walter A. Turner, Jr., are shown with the Italian greyhound puppy they purchased at an open auction held by Combined Arts of San Diego, (COMBO), an organization which raises funds for the benefit of the performing and non-performing arts. Mr. Turner is partner in our San Diego office.

Touche, Ross, Bailey & Smart verified the awarding of sweepstakes tickets in a recent contest sponsored by Master Consolidated, Inc. in Dayton. Witnessing the drawing for grand prize winner is Herman Olt, partner in our Dayton office, with C.E. Westin, vice president of marketing at Master Consolidated.



U.S. Citizens working abroad: Employers' Tax Problems and Responsibilities

by D. Bradley McWilliams

The last two decades have seen an unmatched expansion in the overseas operations of U. S. companies. Although the trend is to staff overseas operations with as many foreign nationals as possible, every year sees a growth in the number of U. S. citizens working abroad. Thus, the problem of taxing the expatriate employee, the U. S. citizen working abroad, is of increasing concern. There have been numerous articles written on the tax problems confronting the expatriate employee, but few exist which have dealt with the equally complex problems of his employer. This article is intended to fill that gap.

The application of income tax withholding and social security to an expatriate presents unusual problems. To set the stage for a review of these problems, a brief outline of the basic fact patterns is appropriate. An expatriate assigned or transferred to a foreign subsidiary company may remain entirely on the payroll of the parent company even though he performs all of his services for the subsidiary company. Arrangements of this type are generally the result of the tax laws or practices in the country to which he is assigned. The expatriate may, however, be paid exclusively by the foreign subsidiary or he may be paid in part by the parent

and in part by the subsidiary. This last alternative is probably the most common situation and also the one that causes the most problems.

The expatriate generally receives, in addition to his basic salary, an overseas premium and a series of allowances — tuition, cost-of-living, income tax, etc. — which make up his total compensation package. These allowances are intended to place the expatriate on the same economic footing as he would have been had he remained working in the U. S. For a more comprehensive review of the overseas compensation package, see "Compensation for U. S. Personnel Overseas", P. 28 of the June issue of *The Quarterly*.

Generally the expatriate's entire compensation package constitutes taxable gross income for purposes of the U. S. income tax. The Internal Revenue Code, however, permits an expatriate to exclude certain amounts of his compensation from gross income if he meets either of two tests. He must have been a bona fide foreign resident for a period which includes at least an entire taxable year, or he must have been physically present in a foreign country or countries for at least 510 full days in any period of eighteen consecutive months. Qualification under either of these provisions allows the expatriate to exclude a maximum of \$20,000 (\$25,000 after three consecutive years of bona fide foreign residence) of his annual compensation from gross income.

Income Tax Withholding

An employer is required to withhold federal income tax from wages paid to an employee. An employer is defined as a person for whom an individual performs services as the employee of such person. In addition a person who pays wages on behalf of a nonresident alien individual, foreign partnership, or foreign corporation, not engaged in trade or business in the U. S., is deemed to be an employer. Under these basic rules, the parent company must withhold federal income taxes from compensation paid to an expatriate if that expatriate is either paid in whole or in part by the parent company. In either case, the parent company should consider only the amount it pays to the expatriate in determining the amount to be withheld. If the expatriate is paid solely by the foreign subsidiary, no U. S. income tax need be withheld.

To explain the application of these rules assume the following: XYZ, Inc., the domestic parent of XYZ, S.A., a French subsidiary not engaged in trade or business in

the U. S., transfers an employee to its subsidiary. If we assume that the expatriate is paid only by the subsidiary, XYZ, S.A., the parent is not required to withhold income tax since it is not an employer paying wages. If, however, the parent, XYZ, Inc. pays any part of the expatriate's compensation it will be required to withhold income tax on the portion paid because it is deemed to be an employer since it is paying wages on behalf of its subsidiary, a foreign corporation.

As an exception to these general withholding rules, a parent company is not required to withhold tax when it has reason to believe that the wages paid will be excluded from the expatriate's gross income as income earned abroad. If the expatriate furnishes his employer (the parent company) with a statement that he expects his compensation will be excluded from gross income the employer may presume, in the absence of cause for a reasonable belief to the contrary, that the compensation is excludable and not withhold. Although such a statement is not essential to support a failure to withhold it is desirable and all employers would be wise to request it of their expatriate employees.

An expatriate cannot qualify for the earned income exclusion as a bona fide foreign resident if he has obtained tax free status in the foreign country on the basis of a statement to the foreign tax authorities that he is not a resident of that country. If his employer has knowledge of such, it may not presume that the expatriate will be allowed to exclude compensation on the grounds of bona fide foreign residence. The employer is not, however, required to determine whether such a statement has been made to the foreign tax authorities.

In many instances, an expatriate who would qualify for exclusion as a bona fide foreign resident but for his statement to the contrary, may qualify under the physical presence rules. The expatriate's claim of nonresident status will not prevent application of the physical presence exclusion rules. An employer, therefore, is excused from withholding even though it has knowledge of the expatriate's statement if it has reason to assume that the compensation will be excluded under the physical presence provisions.

Even though an expatriate qualifies under the earned income exclusion rules, he may exclude only \$20,000 (\$25,000 after three consecutive years of bona fide foreign residence) annually. His employer must, therefore, withhold federal income taxes on any amounts it pays in excess of the appropriate maximum exclusion. What, however, is the proper withholding procedure?

Assume that an expatriate can exclude \$20,000 but that he will be paid \$30,000. Should the required withholding on the \$10,000 be spread over the entire year by taking a portion out of each salary payment, or should withholding commence with the first payment which exceeds the excludable amount of \$20,000? The latter approach is correct. What is the employer's duty, if any, to determine if its employees have other income which will be excluded? The Regulations provide that an employer has no duty to inquire as to its employees' excludable income from other sources, but if it has such information, it must be taken into account in determining whether the compensation it pays exceeds the amount excludable and is thus subject to withholding. Of course, a parent company has information as to the amounts paid to the expatriate by its subsidiary company and, therefore, must take this into consideration in determining when withholding must commence.

The second and final exception to the general withholding rules relieves an employer of withholding if it is required by a foreign country to withhold foreign income taxes. This exception, however, has only limited application since few, if any, parent companies sufficiently subject themselves to the jurisdiction of foreign countries for them to be required to withhold taxes. If the expatriate is paid by the foreign subsidiary alone, the parent, of course, is not required to withhold tax anyway. When an expatriate's compensation is paid in part by a U. S. parent and in part by its foreign subsidiary, foreign withholding required of the subsidiary will not exonerate the U. S. company from withholding on the compensation it pays.

Social Security

The next source of headaches for the employer is the social security tax. U. S. citizens employed abroad by domestic companies are subject to social security even though they perform all their services outside of the U. S. and exclude their compensation from gross income for income tax purposes. On the other hand, U. S. citizens employed abroad by foreign subsidiaries of domestic companies are not subject to social security. However, if a domestic parent company desires to have the expatriates employed by its subsidiary covered by social security it can do so by entering into an agreement with the Internal Revenue Service (IRS). Under such an agreement, the domestic company is liable for the total tax that would have been paid by both the

D. Bradley McWilliams



D. Bradley McWilliams joined the Executive office international tax department last spring. A graduate of the University of Texas with a BBA in accounting and a LLB, Mr. McWilliams spent time on research fellowships in both Ireland and the Netherlands.

employer and the employee had the employee been paid on a domestic payroll.

The agreement creates no obligation to deduct the tax from the expatriate's compensation. If any social security tax is to be withheld, it must be agreed upon by the domestic company, its foreign subsidiary, and the expatriate. The foreign subsidiary may, however, agree to reimburse its parent for the amounts paid on the subsidiary's behalf.

As an exception to the general rule that expenses of another are not deductible, the parent may deduct, to the extent not compensated, amounts paid or incurred pursuant to such an agreement. However, any reimbursement of amounts previously deducted must be included in the parent company's gross income in the year received.

A parent company may include all or only some of its foreign subsidiary companies in the agreement. If more than one subsidiary is included, services performed by an individual for any of the included subsidiaries are regarded as being performed for a single employer with the result that his compensation is subject to social security taxes only once. However, the domestic parent and the covered subsidiary companies are treated as separate employers. Thus, if an employee is transferred from the parent to a covered foreign subsidiary at any time other than at year end up to twice the maximum social security tax may be levied upon his compensation.

By and large the major problem in the social security area is the question of where the required employer-

employee relationship exists. Unlike the income tax withholding provisions, one is not necessarily an employer merely because he pays compensation. Therefore, a parent company has not assured that its expatriates are being afforded social security coverage by the simple act of withholding such taxes from compensation and contributing the employer's portion. Also such coverage is not assured merely by entering into the prescribed agreement with the IRS if, in fact, the parent company rather than the foreign subsidiary company is the real employer.

The Regulations provides for the application of the "usual common law rules" in determining whether an individual is an employee for social security purposes. This determination will generally require examination of all the surrounding facts and circumstances. The key question is who has the power of dominion and control over the individual involved in performing the services, not only as to the result to be accomplished by the work, but also as to the ways and means by which the result is accomplished. The employer need not actually direct or control the manner in which the services are performed, but he must have the right to do so. The question of who has the power of dominion and control is immaterial for purposes of income tax withholding since the "usual common law rules" are not used for that purpose. Thus, we may have the anomalous result of an expatriate having one employer for purposes of income tax withholding and another for social security purposes.

Notwithstanding the technical rules for fixing liability for withholding income and social security taxes, the IRS may use an entirely different test to determine who may deduct an expatriate's compensation in computing corporate taxable income. (The IRS has the power to allocate, apportion or distribute gross income deductions, etc. among related parties to reflect clearly the income of such parties.) The sole factor considered here is who benefits from the services performed. Why shouldn't the same test be used to determine the employer-employee relationship for all purposes—income tax withholding, social security and allocation or apportionment?

Reporting Requirements

Every person required to withhold federal income taxes is obligated to furnish its employees with a statement of the taxable compensation paid and the amounts of tax withheld. The W-2 form is used for this purpose. When, however, an expatriate receives no compensation which is subject to income tax withholding, the W-2 form is not required. Thus if the entire amount paid by a parent company is to be excluded from its expatriates gross income, the parent company employer has no duty to report anything for income tax withholding purposes.

If, however, an expatriate is paid more than the maximum amount excludable a W-2 form is required but it should include only the amount paid in excess of the amount excludable. In no case need the domestic parent company report any amounts paid to the expatriate by its foreign subsidiary companies.

The information return (Form 1099) generally required of persons making payments of \$600 or more in the course of trade or business is not required where it is reasonable to assume that the compensation will be excluded. It is never required where a W-2 form must be filed.

Basically similar rules apply to the reporting of social security except that the W-2 form is not required to report such taxes withheld if no income tax is withheld. In these situations, an employer may use the W-2 form to report the wages subject to social security (current maximum \$6,600) and the amount of tax deducted if it wishes, or it may use Form SS-14 which was designed for the case where the W-2 form is not required.

Conclusion

This article has presented several of the problems and responsibilities which face the employer of U. S. citizens working abroad. While many larger companies have dealt with these problems for a number of years, many small firms are just now beginning to establish overseas operations and will face them for the first time. Hopefully this article, based on the experience of the international pioneers, will assist those new to the field.

Schedule of Training Courses

DATE	COURSE	TITLE	LOCATION
June 5-7	2402	Communications in Staff Development	Denver, Colo.
June 5-9	1103	Auditing Objectives, Standards & Procedures	Chicago, Ill.
June 5-9	1302	Profitability Accounting	Milwaukee, Wisc.
June 12-16	1103	Auditing Objectives, Standards & Procedures	Chicago, Ill.
June 12-16	1104	Audit-EDP	Chicago, Ill.
June 19-30	1101	National Auditing Conference	Madison, Wisc.
June 26-30	1102	Evaluation of Internal Control	Chicago, Ill.
June 26-30	1106	Professional Responsibilities & Practice Devel.	Saddlebrook, N.J.
June 26-30	1304	Professional Responsibilities & Practice Devel.	Saddlebrook, N.J.
July 10-14	1103	Auditing Objectives, Standards & Procedures	Chicago, Ill.
July 17-21	1102	Evaluation of Internal Control	Chicago, Ill.
July 17-19	2402	Communications in Staff Development	Denver, Colo.
July 17-28		Management Conference	Hot Springs, Va.
July 24-28	1104	Audit-EDP	Chicago, Ill.
July 31-Aug. 4	1102	Evaluation of Internal Control	Chicago, Ill.
Aug. 7-11	1103	Auditing Objectives, Standards & Procedures	Chicago, Ill.
Aug. 7-11	1104	Audit-EDP	Chicago, Ill.
Aug. 14-25	1101	National Auditing Conference	East Lansing, Mich.
Aug. 28-Sept. 1	1102	Evaluation of Internal Control	Chicago, Ill.
Aug. 28-Sept. 1	1105	Profitability Accounting	Milwaukee, Wisc.
Aug. 28-Sept. 1	1302	Profitability Accounting	Milwaukee, Wisc.
Sept. 11-15	1102	Evaluation of Internal Control	Chicago, Ill.
Sept. 11-22	1301	Basic Electronic Data Processing	Chicago, Ill.
Sept. 25-29	1103	Auditing Objectives, Standards & Procedures	Chicago, Ill.
Sept. 25-29	1104	Audit-EDP	Chicago, Ill.
Sept. 27-29		Personnel Consulting Seminar	Chicago, Ill.
Oct. 16-20	1106	Professional Responsibilities & Practice Devel.	South Bend, Ind.
Oct. 16-20	1304	Professional Responsibilities & Practice Devel.	South Bend, Ind.
Oct. 16-20	1204	Professional Responsibilities & Practice Devel.	South Bend, Ind.
Nov. 6-10	1203	Selected Tax Topics — Advanced	Cherry Hill, N.J.
Nov. 13-15		SEC Rules and Regulations	Chicago, Ill.
Nov. 13-17	1202	Selected Tax Topics — Basic	Chicago, Ill.
Dec. 4-8	1201	Principles of Taxation and Research Methodology	Saddlebrook, N.J.

Speeches and Published Articles

SPEAKER	DATE	SUBJECT	AUDIENCE
Advanced Business Systems			
DONALD C. HOLMES	August 17	Systems for Automatic Value Exchange: Now and in the Future	Prudential Insurance Company Research and Planning Groups
WILLIAM C. POLLITT	Sept. 27	The Status of On-Line Real-Time Systems in Retailing The Key to Effective Staff and Wage Control	Ninth Annual EDP Conference NRMA Retail Research Institute, Washington, D.C.
RICHARD E. SPRAGUE	July 10	New Era in Management Systems	Executive Management Seminar Prudential Insurance Co. Princeton, N.J.
	August 17	Systems for Automatic Value Exchange: Now and in the Future	Prudential Insurance Co. Research and Planning Groups Newark, N.J.
	Sept. 14-15	Dimensions of Change in the Future of Banking, and Systems for Automatic Value Exchange	Colorado Bankers Conference Colorado Springs, Colo.
Atlanta			
SPAULDING, HARRY L.	Sept. 7-8	On-the-Job Training Program	University of South Florida, Tampa, Florida
Birmingham			
NICHOLS, FRED W.	Sept. 7-8	On-the-Job Training Program	University of South Florida, Tampa, Florida
Boston			
KELLER, DONALD M.	May	Profitability Accounting	Amos Tuck School of Business Administration
	June 30	Management Responsibility	The School of Banking at Williams College
NOBLE, CHARLES H.	May 4	A Career in Public Accounting	Burdett College students
WEINREBE, JOSEPH I. HAKIM, RALPH W. MURPHY, EDWARD F. RAJA, ROY M.	June 22	Project Scheduling and Control	International Data Processing Conference and Business Exposition
WHEELER, DAVID	June 5	Estate Planning	Rotary Club of Framingham
Chicago			
BLOOM, RAYMOND P.	June 13-16	Auditing Problems Peculiar to Hospitals	Institute of Independent Hospital Auditors
BROWN, CHARLES	May 22-24	Retail Management Conference	Executives of Galerias Preciados, Madrid
	May 26-27	Retail Management Conference	Spanish Retail Executives, Madrid
	June 1	Retail Management Conference	Executives of Leonard's Department Store, Fort Worth

<i>SPEAKER</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>AUDIENCE</i>
BROWN, CHARLES P.	June 13-14	Challenge to the Store President	NRMA, New York
	June 16	Systems Planning	Executives of Jewel Companies, Inc.
	June 23	Computer Feasibility Studies	National Conference—Financial and Operations Group—Menswear Retailers of America—Milwaukee
DAVID, I. TED DITRI, ARNOLD E. HAIGHT, AL WOOD, DONALD R.	May 23	Effective Management Planning and Control of Systems Implementation	Chicago Chapter of the Data Processing Management Association
DITRI, ARNOLD E.	May 19	Bank Marketing and Management Information Systems	AMA
DITRI, ARNOLD E. GEORGEN, W. DONALD	August 4	Impact That EDP Has Had on Budgetary and Accounting Procedures	University of Notre Dame
GEORGEN, W. DONALD	April 22	Management Information Systems in the Space Age	Midwest Regional Meeting, American Accounting Association
	May 19	Management Information Systems in the Space Age	Morningside College, Sioux City, Iowa
HARTUNG, GLENN J.	May 20	Subchapter S — A Special Technique for Minimizing Taxes	Midwest Chapter of the Metal Treating Institute
HAUSMAN, DONALD I. HARTUNG, GLENN J. WOOD, DONALD R.	July 26	Financial Management For Contractors	First National Bank of Chicago Seminar
HINZE, PHILIP	June 1	The Other Tax Returns — Fiduciary	Illinois Society of CPAs
KAY, ROBERT S.	May 11	Statistical Sampling for Accounts Receivable Verification	Institute of Internal Auditors, Toledo Chapter
Mc LEAN, DONALD D.	March 22	Career Opportunities in Public Accounting	Proviso West High School, Hillside, Ill.
McMILLAN, WILLIAM G. PETRAN, ANTON S. TURNIPSEED, EARL K. WOOD, DONALD R.	June 19	Profitability Accounting	Chicago Association of Commerce and Industry
McMILLAN, WILLIAM G.	June 28	Corporate Planning	Chicago Midwest Envelope Manufacturers Association
STURGEON, C. EUGENE	May 17	Utilization of Statistical Sampling by Auditors	Institute of Internal Auditors
TURNIPSEED, EARL K.	Sept. 20	Profitability Accounting — Financial Statements for Management Action	NAA Fox Valley Chapter
Denver			
HUSTED, CHARLES E. PALMER, RUSSELL E.	June 13	An Accounting System for all Homebuilders	National Association of Homebuilders Seminar
PALMER, RUSSELL E.	July 13	The CPA's New Look	Regis College Accounting Students and Faculty
PETERSON, RICHARD L.	June 7	Effective Strategic Planning	Budget Committee, American Petroleum Institute
SIMICH, STEVAN	June 12	Municipal-wide Planning for Automated Information Systems	AMA Seminar: Computer Based Information Systems for State and Local Government
Detroit			
ATKINS, WILLIAM	May 20	Systems Planning	Systems and Procedures Association Spring Conference of Southeastern Michigan
	May 20	Managerial Control Through Profitability Accounting	Systems and Procedures Association Spring Conference of Southeastern Michigan

<i>SPEAKER</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>AUDIENCE</i>
BAUMANN, EDWARD A.	May 11	Tax Practice by CPAs	Students participating in the Careers Unlimited program
BIANCO, JOSEPH P., JR.	April 25	Organizing for Urban Transportation	Joint Meeting of Chamber of Commerce and Rotary Club of Highland Park
EDGAR, JAMES M.	May 11	Management Services in Public Accounting	Students participating in the Careers Unlimited program
FISHER, WALTER B.	May 11	Public Accounting and the Audit Function	Students participating in the Careers Unlimited program
FOY, JOHN G., JR.	May 20	Managerial Control Through Profitability Accounting	Systems and Procedures Association Spring Conference of Southeastern Michigan
HEGARTY, JOHN D., JR.	May 24	Investment Credit and Accelerated Depreciation Suspension Period Rules	Detroit Chapter, Tax Executives Institute
JAMES, WILLIAM R.	June 21	Budgeting and Accounting Using Electronic Data Processing	International Data Processing Conference in Boston
JENNINGS, DONALD W.	July 11	The Use of Financial Data in Internal Management	University of Washington, Seattle
LISTON, BRAY E.	June 20	Family Financial Planning	Northeast Club of Kiwanis
MYERS, KENNETH G.	May 20	Systems Planning	Systems and Procedures Association Spring Conference of Southeastern Michigan
OETTING, ROGER H.	June 2	Grand Rapids City Income Tax	Western Chapter, Michigan Association of CPAs
PETERS, PHYLLIS E.	June 13-16	Auditing Problems Peculiar to Hospitals	Institute of Independent Hospital Auditors
	June 20	Trends in Financial Reporting	Grand Rapids Chapter of American Society of Women Accountants
RUFF, JEAN-PAUL A.	April 28	The Computer in Local Government—Accounting and Management	Governmental Accountants and Analysts Association
SCHATZ, HARVEY E.	June 22	A Profit Plan Case Study	Management Services Seminar presented by The Michigan Association of CPAs
SHAW, JOHN C.	June 21	Budgeting and Accounting Using Electronic Data Processing	International Data Processing Conference in Boston
TROXELL, HARRY G.	May 11	Public Accounting as a Career	Students participating in the Careers Unlimited program
VANDER BROEK, DAVID J.	June 20	The Benefits of Estate Planning to the CPA and His Client	Combined Annual Meeting of the Southern States Conference of CPAs and the Texas Society of CPAs

Executive

BEYER, ROBERT	May 15	Cost Concepts for Improved Profits	National Electrical Manufacturers Association, Chicago
	July 10	Operational Auditing	American Management Association, New York
	Sept. 20	Management Information Systems in the Space Age	NAA—Pittsburgh Chapter
	Oct. 17	Management Information Systems in the Space Age	National Association of Accountants, Omaha Chapter
	Feb. 15	Management Information Systems in the Space Age	National Association of Accountants, Buffalo Chapter
	March 21	Management Information Systems in the Space Age	National Association of Accountants, Worcester Chapter
	March 31-April 4	Profitability Accounting	Young President's International Congress, San Juan
TRUEBLOOD, ROBERT M.	June 19	The Accounting Environment for CPAs	Leavitt-Solomon Panel California Society of CPAs, Lake Tahoe
	July 13-14	Fraud, Malpractice and Liability	Oxford University
JUNE, MARJORIE	April 29	Current Activities of the American Society of Women Accountants	Michigan Chapter of the American Society of Women Accountants

<i>SPEAKER</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>AUDIENCE</i>
TRUEBLOOD, ROBERT M.	Sept. 12	The Impact of New Techniques on the Organization of the Finance and Information Function	Ninth International Congress of Accountants, Paris
	Oct. 23	Accounting Questions for Lawyers	Chicago Bar Association Seminar
	Nov. 17	Accounting Research	University of Texas, Austin
Grand Rapids			
McCREADY, GORDON L.	June 13-16	Auditing Problems Peculiar to Hospitals	Institute of Independent Hospital Auditors
Houston			
ASHENDORF, WESLEY	May 9	Taxability of "Tax-Free" Exchanges	Federal Taxation Forum, Houston, Texas
FREEMAN, ALVIN LIPSCOMB, OWEN	May 8, 10, 12, 15, 17, 19	Federal Income and Federal Estate Taxation and Gift Taxation	Texas National Bank of Commerce, Houston
LATTER, THOMAS C.	June 13	Responsibilities in Tax Practice	East Texas Chapter of Texas Society of CPAs, Kilgore, Texas
	August 22	Responsibilities in Tax Practice	El Paso Chapter of Texas Society of CPAs, El Paso, Texas
Kansas City			
HOFFMAN, LOREN G.	Nov. 13	Current Development in Taxes	Kansas City Chapter, Financial Executive Institute
	Jan. 16, '68	Proposed Tax Changes	Tax Executive Institute
WATSON, C. RUSSELL	Oct. 31	Profitability Accounting for Planning and Control	University of Missouri Accountants in Residence Program
Los Angeles			
OH, GEORGE	April 17	Problems of the Small Businessman	Sanitary Suppliers Association in Los Angeles
PABST, CARL A.	Sept. 12	Computers—An Auditors Dream Or An Auditors Nightmare	A Joint Meeting of the Institute of Internal Auditors and the Systems and Procedures Association, San Diego, Calif.
STRATFORD, RICHARD C.	May 11	The Accountant as a Part of the Management Team	California Chapter of the National Society of Accountants for Cooperatives in Los Angeles
Milwaukee			
BROCKSCHLAGER, JOHN F.	June 12-16	Profitability Accounting	Management Institute Seminar
CERNY, JAMES J. TRAWICKI, DONALD J.	July 11	Management Information Systems in the Space Age	University of Wisconsin Summer Institute, Introduction to Computing Machines
MARSH, RALPH M.	June 16	Recent and Pending Opinions of the Accounting Principles Board	Paper Company Financial Executives Seminar
TRAWICKI, DONALD J. BROCKSCHLAGER, JOHN F.	June 13-17	Profitability Accounting	University of Wisconsin Management Institute Seminar
New Orleans			
BAUMANN, HENRY J., JR. HARVEY, JAMES H.	June 9	Profit Planning and Budgeting Seminar	Mississippi Home Builders Association Convention, Biloxi, Mississippi
MONTGOMERY, LELAND S., JR.	Oct. 12	Redemption Price and Stock Valuation—Related Party Losses—Section 267—Constructive Ownership—Use of Notes Payable	Seventeenth Tulane Tax Institute
	May 2	Opportunities in Public Accounting	Tulane Chapter of Beta Alpha Psi
New York			
ACKERMAN, SANFORD S.	June 8	Business Challenges for War Gaming Techniques	National Gaming Council 6th Symposium on War Gaming

<i>SPEAKER</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>AUDIENCE</i>
BEVIS, DONALD J.	June 16	Recent Activities of the Accounting Principles Board	Pacific Northwest 44th Annual Conference, Seattle, Wash.
	Oct. 27	Reporting for Conglomerate Companies	The U. of Michigan Fall Accounting Conference, Ann Arbor, Mich.
BOHN, ROBERT	April 25	Profit Analysis for Marketing Managers	AMA Financial Analysis for Marketing Managers Seminar, N.Y.
BORSUK, M.	Jan. 11, '68	Current Federal Income Tax Developments	New Jersey State Society of CPAs, Hudson Chapter
BROWN, VICTOR H.	June 28	Lease or Buy Decisions	NAA National Convention, Denver, Colo.
	July 7	Return on Investment as a Comprehensive Management Tool	American Management Association ROI Seminar
	Sept. 26	Improving Profits Through Cost Control	National Assn. of Home Builders Atlantic City, N.J.
	Oct. 20	Return on Investment	Irving Trust Company Industrial Seminar, New York
	Oct. 24	Trends in Management Information Systems	Financial Executives Institute Buffalo, New York
	Nov. 16	Capital Budgeting Models in Management Information Systems	John Higgins Memorial Series sponsored by U. of Minnesota
	Oct. 18	Management Information Systems in the Space Age	Penn State Graduate Club
DUFFY, JAMES	May 18	Effective Management Reporting	Hudson Chapter NAA
	Aug. 3	Profit Concepts in Marketing Planning	AMA—Managing Marketing Profitability Seminar, N.Y.
KELLOGG, HOWARD L.	June 8	Current SEC Attitudes and Their Motivations Problems of Measuring and Reporting Product-line and Divisional Profits Effect of Proposed Disclosure of Product-Line and Divisional Performance	Council of Financial Executives, The National Industrial Conference Board
KOONMAN, LEO J.	July 6	Risk and Forecasting	ROI Seminar—AMA N.Y.
LIEBERMAN, BENJAMIN	May 9	Retail Audit Problems	Member of panel on Retail Audit Problems NYSSCPA
LIEBLER, SARASON D.	May 9	Implications of Control on the Organization	AMA Profitability Accounting and Control Seminar, New York
MUNRO, ROBERT G.	May 23	Management Information Systems in the Space Age	Budget Executives Institute Atlanta, Georgia
ORLIN, HOWARD	June 1	New York City's New Tax Laws	Practising Law Institute
PADWE, GERALD W.	June 1	N.Y. State Franchise Taxes	New York State Society of CPAs
PAUL, HERBERT M.	June	Tax Alternatives in Buying and Selling a Business	New York State Society of CPAs
	Aug.	Estate Planning for Owners of Family-Held Companies	American Management Association
PRESBY, JOEL T.	June 14	Management Reporting	AMA Seminar for EDP and Management Information Systems Applied to Financial and Accounting Systems
ROSE, JOSEPH M.	May 17-19	Solving Growth Problems in the Family-Held Company	AMA (General Management Workshop Seminar No. 2138-26) N.Y.
	May 18	F.H.A. Accounting and Reporting	New York State Society of CPAs
SIMON, SANFORD R.	June 13-14	Challenge to Store President	Presentation No. 7 U.S. Retail Presidents, N.Y.C.
	June 13	Return on Investment	National Retail Merchants Assn.
	June 14 & 22	Return on Investment	AMA—Marketing Planning Seminar, N.Y.

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SIMON, SANFORD R.	July 7	Applications to Marketing Management	AMA ROI Seminar, N.Y.
	July 21	Profit Concepts in Marketing Planning	AMA Fundamentals of Marketing for Non-Financial Executives Seminar, N.Y.
	Aug. 2-15	Profit Concepts in Marketing Planning	Orientation on Marketing Profit Planning Seminar AMA NY
SILKA, LEONARD S.	April 28	Improving Accounting Reporting for the Investor	First Annual Inter-Collegiate Accounting Conference at New York University
SPORER, MAX F.	July 5-6	Definition of Concepts Techniques Used in Control Budgeting Techniques Used to Evaluate Management Performance	AMA ROI Seminar, N.Y.
	Sept. 25	Profitability Accounting and Control	Budget Executives Institute, Syracuse, New York
STEVENS, ROBERT G.	April 3-6	The Management of Banks in a Changing Economy	Massachusetts Bankers Association
	April 17	The Management of Banks in a Changing Economy	National Bank of Detroit
	May 3	The Impact of the 1970's on Education for Banking	Massachusetts Bankers Association
	May 8	Program for Developing a Central Information File	The American Bankers Association National Automation Conference
	Sept. 14-15	The Management of Banks in a Changing Economy	Colorado Bankers Association
	Sept. 25-27	How Banks Use Marketing to Manage Change	The American Bankers Association National Convention
WEINSTEIN, EDWARD	June 6	Bankruptcy Fraud	Bankruptcy and Insolvency Committee, New York State Society of CPAs
Pittsburgh			
DIMARIO, JOSEPH F.	July 11	The Management of Change	Chamber of Commerce Retail Seminar, New Kensington, Pa.
	Aug. 9	Planning and the Small Retailer	Retail Seminar, Franklin, Pa.
ROSSI, HENRY J.	May 17-18	Estimate-Bid Function in Unit Costs; Control of Job Progress and Cost; Methods of Accounting—Tax Aspects	Seminar—Associated General Contractors of America, Sacramento, Calif.
	July 20	Financial Management for Contractors	Seminar sponsored by First National Bank, Chicago, Ill.
WERBANETH, LOUIS A., JR.	July 24	New Directions in the Function of the Accountant	Investor Relations Seminar—AMA New York
	Aug. 31	General Education	American Accounting Association Conference, Pennsylvania State University, University Park, Pa.
WITT, HARRY W.	Aug. 31	Developing Effective Operating Controls	EDP Audits and Controls Seminar, AMA, New York
San Diego			
MALKIND, JOHN J. MOONEY, ROBERT J.	June 14	Seminar on KEOGH bill	Capital Growth Corporation of Southern California
MALKIND, JOHN J. MOONEY, ROBERT J.	June 19	Tax Savings for the Living	Estate Planning Council of Southern California
TURNER, WALTER A., SR.	June 13	The Accounting Profession	La Jolla Optimist Club
TURNER, WALTER A., JR. KUHN, JAMES B.	May 17	Profit Planning and Budgeting for Home Builders	San Diego Building Contractors Association Members
TURNER, WALTER A., JR.	June 13	Profit Planning and Budgeting for Home Builders	Denver Building Contractors Association Members

<i>SPEAKER</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>AUDIENCE</i>
San Francisco			
FRIEDMAN, NATHAN J.	June 28	Indonesia	World Trade Association, San Francisco
GERVER, ELI	May 17-18	Various Tax Problems in Construction Industry	Seminar for Executives of Construction Industry sponsored by Northern California Chapter of Associated General Contractors of America, Sacramento, Cal.
HURTADO, CORYDON	June 13	Data Processing Alternatives for your Savings and Loan	Sacramento Savings and Loan Managers Association, Sacramento, Calif.
NEELY, WILLIAM E.	June 1	Corporate Planning	American Petroleum Institute Convention, Denver, Colorado
STEARNS, RANDALL	July 27	The Trend in Refrigerated Warehouse Operations	Pacific States Cold Storage Warehousemen's Association, Hilton Hotel, San Francisco International Airport
WALTERS, RALPH E.	July 10	Removing the Mystery from Auditors' Reports	Securities Regulation Round Table—San Francisco, Calif.
Seattle			
ALKIRE, DURWOOD L.	Nov. 16	Self-Employment Retirement Plans	17th Annual Kansas Tax Conference
BENJAMIN, ROBERT M.	May 17, 18, 19	Audits in The Age of Automation	1967 Professional Standards Seminar, Washington Society of CPAs
	May 24	EDP and Auditing	University of Washington, Auditing Class
CURTIS, MICHAEL P.	Oct. 6	Profit Planning and Budgeting	Seminar, Regional Meeting of Montana Home Builders Association
	April 10	The Challenges in Public Accounting	University of Montana
CURTIS, MICHAEL P. TALBOLT, JACK W. FAY, HARRY B. FORD, ROBERT J.	May 5	Consulting and Public Accounting—Today and in The Future	University of Washington Accounting Club
GAEDE, WILLIAM G.	April 7	The Planning and Management of Systems Projects	Systems and Procedures Association, Pacific Northwest Chapter
LILJEBECK, ROY C.	April 10	A Career in Public Accounting	Central Washington State College
TALBOLT, JACK W.	March 17	Evaluating Vendor Proposals	Systems and Procedures Association, Pacific Northwest Chapter
	April 14	Systems Analysis for Decision Makers	American Society of Public Administrators, Washington State College
McLEAN, GARY A.	May 17	Pitfalls in Data Processing	Seattle Chapter, NAA
St. Louis			
FLEISHER, DAVID L.	Aug. 28	The Future of Retailing	State Retail Association Heads North Central Regional Meeting

Articles

<i>AUTHOR</i>	<i>EDITION</i>	<i>TITLE</i>	<i>PUBLICATION</i>
Advanced Business Systems			
SPRAGUE, RICHARD E.	June	The Browsing Era	Business Automation
	July-Aug.	The New Era in Information Systems	Systems and Procedures Journal
Boston			
WHEELER, DAVID	April-May	Subchapter "S"—Recent Developments and Law Changes	Massachusetts CPA Review
Chicago			
BROWN, CHARLES F. EBERT, CARROLL	April	Fashion Information Reporting at the Category Level	Retail Control
McMILLAN, WILLIAM G.	May	First Steps in Corporate Planning—The Hardest	Commerce Magazine
Detroit			
BASSEY, RONALD D.	Spring	The CPA Tax Specialist and His Value to the Practicing Lawyer	Case and Comment
DAVIDSON, H. JUSTIN	April	Systems Planning: Art of Corporate Navigating	Financial Executive
EDGAR, JAMES M. CURTIS, DONALD A.	Spring	Formal Business Planning	Budgeting Magazine
Executive			
ARMBRUSTER, GORDON	Sept.	Business and the Courtship of the Educated	Personnel Journal
BEYER, ROBERT	June	Management Information Systems: Who'll Be in Charge	Management Accounting
TRUEBLOOD, ROBERT M.	Spring	A Season of Head-Hunting	The Illinois CPA
	August	Legal Liability—A View From the States	Accountancy, published by the Institute of Chartered Accountants in England and Wales
	1967	Statistical Sampling Techniques in the Aging of Accounts Receivable in a Department Store	Management Information—A Quantitative Accent, published by Richard D. Irwin, Inc.
Milwaukee			
BROCKSCHLAGER, JOHN F.	July	Provider Options for Maximum Reimbursement Under the Medicare Program	Journal of Accountancy
New York			
BORSUK, MICHAEL L.	July, Aug.	Tax Factors to Consider When Your Client Contemplates Doing Business Abroad	Taxation for Accountants
FURMAN, ROBERT M.	May	Estate Planning	New York Certified Public Accountant
	May	Financing Accounts Receivable	Credit Currents, published by NRMA
	June	Tax Valuation of the Stock of Closed Corporations	Monthly Digest of Tax Articles
	Aug.	Stock Transferred in Trust with Retained Life Estate	New York Certified Public Accountant

<i>AUTHOR</i>	<i>EDITION</i>	<i>TITLE</i>	<i>PUBLICATION</i>
HAMMERTON, JAMES C.	April-May	Integrating Process and Business Control	Business Automation
LEONTIADES, MILTON	March	Use of the Capital Market By Large Manufacturing Companies	Financial Analysts Journal
LIEBERMAN, BENJAMIN A. WEINSTEIN, EDWARD A.	April-June	How Calculated Are Your Risks, Mr. Retailer?	Stores Magazine
ORLIN, HOWARD J.	March	New York City Income Tax—Gains Modification	New York State Society of Certified Public Accountants
PAUL, HERBERT M.	March	Charitable Contribution of Property	The New York State Certified Public Accountant
	May	Co-Editor of Federal Tax Column	The New York State Certified Public Accountant
	June	Use of Accelerated Depreciation	The New York State Certified Public Accountant
	Fall	Repossession and Foreclose By Banks on Defaulted Loans and Mortgages	Federal Income Taxation of Banks
PRESBY, J. THOMAS	April	An Algorithm for Solving Job Sequencing Problems	Management Science
SAFANE, MILTON D.	March	Suspension of Investment Credit and Accelerated Depreciation	ATA Accounting Service Newsletter
STEVENS, ROBERT G.	March	Marketing Intelligence Systems Using Internal Data	Proceedings of the 1967 March Marketing Meeting of the American Bankers Association
	April	Computers For What?	The American Agency Bulletin
	May	Management Information Systems: The New Panacea?	Mountain States Banker
	June	Program for the Development of Central Information Files	IBM—Banking and Finance News
	1967	The Impact of the 1970's on Education for Business	A "Blue Skies" Look at... Schools of Business in the 1970's, published by Southern Illinois University
Philadelphia			
MARKHUS, ROGER C.	July-Aug.	Qualified or No-Statutory Option Plans: New Tax Saving Possibilities for Small Clients	Taxation for Accountants
Portland			
HALL, RICHARD C.	May	Return on Investment Techniques Applied to Acquisition Decision	Oregon Society CPA Bulletin
Seattle			
ALKIRE, DURWOOD L.	Aug.	Restoration of Investment Credit and Accelerated Depreciation	Journal of Taxation

Applause . . .

Boston—At the Annual Awards Dinner of the Massachusetts Society of CPAs, James M. Lynch was awarded a desk set for writing the best article in the "Mass. CPA Review" during 1965-1966. The article, "Internal Budgetary Controls; An Independent Accountants' View" appeared in the June-July 1965 issue.

Buffalo—Robert P. Schermerhorn received the second award made by the New York State Society of CPAs for serving as seminar discussion leader for the Buffalo Presentation of Special Reports.

Chicago—Ted David has been appointed a member of a Book Review Committee of the Journal of Data Management. He will review from two to three books a year in the areas of EDP, modern business and industry management. Mr. David also attended a seminar this summer at Brookings Institute in Washington, D.C. to discuss the economic impact of the Federal Budget. The seminar was sponsored by the Brookings Institute and the President's Commission on Budget concepts.

Denver—Russell E. Palmer has been appointed a member of the board of directors of Colorado Society of CPAs. Other appointments include the following: Clarence Hein, vice chairman and Russell E. Palmer, board representative—Accounting and Auditing Procedure; Charles Husted, chairman—Computer Education and Basic Management Advisory Services; Ronald S. Fiedelman, vice chairman—Federal Taxation; Leo R. Smentowski, secretary—Governmental Accounting; Robert L. Stamp, chairman—Meetings-General; Frederick A. Fuchs, secretary—Meetings-Technical; Carleton H. Griffin, chairman—Planning; Russell E. Palmer, board representative—Practice Review; Earl E. Marcus, vice chairman—Relations with the Bar.

Leo R. Smentowski has been elected president of the Colorado Springs-Pueblo Chapter of the NAA.

Detroit—Richard A. Patterson has been elected to the 1967-1968 board of directors of the Detroit Chapter of the NAA.

Donald H. Waterman is a contributing editor to "Federal Income Taxation of Banks and Financial Institutions" published by the Banking Law Journal.

Dale R. Ellery was elected treasurer of the Trenton Junior Chamber of Commerce for the year 1967-1968.

Executive—In July Robert M. Trueblood attended a meeting of the International Study Group in Oxford, England. This group is involved in the preparation of comparative studies on certain major accounting issues as among Canada, Great Britain, and the United States. Mr. Trueblood has been appointed chairman of the United States delegation for another year, and will continue to act as chairman of the International Study Group.

Marjorie June has been elected secretary of the American Women's Society of CPAs for the year 1967-1968.

Fresno—Brenton B. Bradford has been elected treasurer of the California Society of CPAs.

Grand Rapids—Eugene R. Doorn was elected vice chairman of the West Chapter of the Michigan Association of CPAs.

Richard E. Herrinton has been elected to the 1967-1968 board of directors for the Grand Rapids Chapter of the NAA.

Los Angeles—Bernard Mulvey taught at the University of San Fernando Valley College of Law this summer.

Memphis—The Memphis Chapter NAA has made the following appointments: Don Stark, director—Member attendance; Jim Tansey, director—Membership; Don Stark, Long-Range Planning Committee.

Minneapolis/Saint Paul—The following committee appointments were made by the Minnesota Society of CPAs for the coming year: Ronald Curtis, chairman—Auditing; Einar Ross, chairman—Membership Consultation Service; Jerald Grande, chairman—Taxation—Federal and State; Carl Pohlman, vice chairman—Cooperation with Bankers and Other Credit Grantors; John McFarland, vice chairman—Estate Planning. Committee Members: Ingvar Aaseng—Accounting & Auditing Procedure; James Ascher—Tax Conference; Ronald Bach—Publications; Richard Beck—Accounting & Auditing Procedure, Professional Ethics; Martin Beckman—Accounting & Auditing Procedure; Craig Blanchard—State and Municipal Accounting & Auditing; Karen Chaplin—Taxation—Federal & State; Clarence Holtze—Professional Development; John Honzl—Membership; Richard Kostboth—Tax Conference, Taxation—Federal & State; Allan Murphy—State & Municipal Accounting & Auditing; Dow Nelson—Management Services.

New York—Donald J. Bevis serves as a panel member on the Advisory Panel of CPAs to Financial Writers. The advisory panel was organized to assist financial writers on matters pertaining to accounting or the accounting profession.

Bernie Cianca chaired a seminar on Retail Accounting at the New York State Society of CPAs.

Jim DelVacchio was appointed to the Program Committee of the Hudson Chapter of the New Jersey State Society of CPAs. Mr. DelVacchio has also been appointed to the New Jersey State Society of CPAs Committee on CPA Consultation Service.

John Durkin was appointed to the New Jersey State Society of CPAs Committee on Federal Taxation and chairman of the Union County Chapter New Jersey State Society of CPAs Committee on Federal Taxation.

Quotations from Robert M. Furman's speech at the NRMA Convention in Detroit appeared in the July issue of Stores Magazine.

Arthur Michaels has been named chairman of the Budget & Finance Committee of the New York State Society of CPAs. Mr. Michaels has also been appointed to the Chapter Operations Committee of the New York State Society of CPAs.

Howard Orlin was appointed to the City of New York's Advisory Committee on Tax Administration. Mr. Orlin was also appointed to the Legislative Sub-Committee and the Technical Meetings and Seminar Sub-Committee of the New York State Society of CPAs.

Newark—Melville M. Tuber has been appointed to the General Campaign Committee of the Bentley College Golden Anniversary Fund.

Philadelphia—Lawrence J. Scully has been reappointed to the Committee of Legislative Policy and the Past Presidents Committee of the Pennsylvania Institute of CPAs.

Jean West has been appointed to the Program Committee of the Philadelphia Chapter of Data Processing Management Association.

Phoenix—R. Dixon Wood is chairman of the Arizona Society of CPAs Committee for Cooperation with Bankers. Mr. Wood has also been elected a member of the Board of Directors of Partners, an association of Phoenix executives formulated for the purpose of dissemination of business information.

Portland—John Crawford was appointed vice chairman of the State Board of Accountancy.

Lee Schmidt was elected to the board of directors of the Oregon Society of CPAs.

The Oregon Society of CPAs also made the following committee appointments for the 1966-1967 year: Dick Hall, chairman—Management Services Committee; Bill Davis, chairman—Youth Activities Committee; Glen Goff, chairman—Public Relations Committee.

San Diego—Marvin A. E'Golf recently completed a three month assignment as a loaned executive with the Survey on Efficiency and Cost Control in California government established by Governor Ronald Reagan.

James B. Kuhn has been appointed by the San Diego County Board of Supervisors to the County Property Tax Assessment Appeals Board.

Robert J. Mooney has been appointed chairman of the Governmental Affairs Committee, San Diego Chamber of Commerce for 1967-1968.

Lois J. Pearson was elected treasurer and chairman of the Finance Committee of San Diego Chapter of the American Society of Women Accountants for 1967-1968.

San Jose—Frank S. Belluomini was elected vice president of the San Jose Chapter California Society of CPAs.

Seattle—Durwood L. Alkire has been reappointed chairman of the AICPA Committee for Retirement Legislation for the Self-Employed for 1967-1968.

Gary A. McLean is the new president of the Seattle Chapter, Data Processing Management Association.

Alumni . . .

Boston —George A. Kean, formerly of our audit staff, resigned recently to accept a position as controller with Gilman Bros, a client of the Boston office.

Walter Barker has recently accepted the position of controller at the Leonard Morse Hospital in Natick, Massachusetts.

Richard Farrar has received his MBA degree from West Virginia University and has now accepted a position as assistant manager in general accounting at the Raytheon Company in Andover, Massachusetts.

San Francisco—J. Ben Vernazza, a former staff member, has been appointed vice president of United Foods, Inc. His responsibilities will include corporate-wide planning, administration, and finance.

Quarterly Correspondents

Advanced Business Systems, *Katherine L. Beal* • Atlanta, *Elaine Hardin* • Boston, *Marjorie J. Johnson*

Buffalo, *Eileen Keating* • Chicago, *Bonnie Linneman* • Cincinnati, *Becky Biancke* • Cleveland, *Alberta Everett* • Dallas, *Virginia Howell*

Dayton, *J. Leslie Earley* • Denver, *Beverly Thomas* • Detroit, *Harry G. Troxell* • Executive Office, *Laura Cruz*

Fresno, *Violet Pearson* • Grand Rapids, *Donna D. Kramer* • Houston, *Jean Hensley* • Kansas City, *Genevieve R. Silady*

Los Angeles, *Carol Dalton* • Memphis, *Ann Agee* • Milwaukee, *Abby Zook* • Minneapolis, *Alice D. Carlson*

New Orleans, *Regina I. Helmke* • New York, *Corita Forrest* • Newark, *Diane Pico* • Philadelphia, *Elizabeth J. Nugent* • Phoenix, *Ira Osman*

Pittsburgh, *Nancy S. Albright* • Portland, *Grace McLean* • Rochester, *Charlotte Larsen* • St. Louis, *Judy Lance* • San Diego, *Jane Holehan*

San Francisco, *Vilma Jenson* • San Jose, *Mary Lou Jessup* • Seattle, *Helen B. Lilly* • Washington, *Ann Nicholson*

